DOCUMENT RESUME

ED 166 382 08 CE 019 047

AUTHOR Thelen, Judy
TITLE Credit: Using Other People's Money. A Teacher Inservice Module for Secondary Level Consumer Education Units in Home Economics, Business Education, Social Studies and Related Areas.
INSTITUTION Eastern Michigan Univ., Ypsilanti. Consumer Education Center.
SPONS AGENCY Bureau of Occupational and Adult Education (DHEW/OE), Washington, D.C. Office of Consumers' Education.; Michigan State Dept. of Education, Lansing.
PUB DATE Aug 77
NOTE 84p.; For related documents see CE 019 046-048 ; Parts of appendix may be marginally legible
AVAILABLE FROM Michigan Consumer Education Center, Eastern Michigan University, University Library, Ypsilanti, Michigan 48197 ($3.00)

EDRS PRICE MF-$0.83 HC-$4.67 Plus Postage.
DESCRIPTORS *Behavioral Objectives; *Consumer Education; *Course Content; *Credit (Finance); Inservice Teacher Education; Instructional Materials; *Learning Activities; Resource Materials; Secondary Education
IDENTIFIERS Michigan

ABSTRACT

This teacher-oriented learning module for secondary level consumer education teachers, the second in a series of three, was developed to provide information on credit and ideas for conveying this content to students. The module begins with a definition and general goals of consumer education, an overview and rationale, five performance objectives (each are divided into five to eight sub-objectives), and a pre-test. The next portion of the module covers the five performance objectives and for each one (varying from five to fourteen pages in length) includes the following: sub-objectives, content, and related student learning activities. The five content areas covered are as follow: how much credit you can afford, creditworthiness, credit sources, credit cards, and when you cannot pay your bills. A posttest and a list of supplemental resources conclude this module. The appendix includes the following: student learning activities, and sample tables regarding the calculation of interest on loans; a credit application form; a consumer credit crossword puzzle; an article reprint on credit buying; the pre- and posttest answer key; two transparency masters; and information on the legal doctrine of holder-in-due course. (EM)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED166382

CREDIT: USING OTHER PEOPLE'S MONEY

BY: JUDY THELEN

AUGUST, 1977

A TEACHER INSERVICE MODULE FOR SECONDARY LEVEL CONSUMER EDUCATION UNITS IN HOME ECONOMICS, BUSINESS EDUCATION, SOCIAL STUDIES AND RELATED AREAS.

THE AUTHOR

Judy Thelen is a consumer Education Specialist at the State Employees Credit Union, Lansing, Michigan.

THE CENTER

The Michigan Consumer Education Center provides professional development and continuing education services to educators through courses, workshops, inservice programs, conferences and publications. The Center maintains a loan library of teaching-learning resources available for preview and evaluation.

ACKNOWLEDGEMENT

The development of this module was supported by the U. S. Office of Education, Department of Health, Education and Welfare, the Michigan Department of Education, and Eastern Michigan University. However, the opinions expressed herein do not necessarily reflect the position or policy of the U. S. Office of Education, and no official endorsement should be inferred.

Rosella Bannister, Project Director, Michigan Consumer Education Center at Eastern Michigan University
Dustin Wilson, U. S. Office of Consumers' Education
Barbara Gaylor, Michigan Department of Education

CE 019 047

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY.

CREDIT: USING OTHER PEOPLE'S MONEY

TABLE OF CONTENTS

Definition, Scope and Goals of Consumer Education 1

Overview and Rationale 2

Performance Objectives - Credit Module 4

Pre-Test 5

How Much Credit Can You Afford? 6

Creditworthiness 12

Sources of Credit 21

Credit Cards 29

When You Can't Pay Your Bills 35

Post-Test 49

Supplemental Resources 52

Appendix 57

- Figuring Interest 59
- Amortization Sample 64
- "Rule of Thumb" Refund Table 66
- Loan Payment Chart 67
- Comparing Auto Loans 68
- Credit Application 69
- Consumer Credit Crossword Puzzle 70
- Credit News Article 72
- Answer Key 76
- Transparency Masters 77
- Holder in Due Course 79

APPROXIMATE CLASSROOM TEACHING TIME:

8 to 10 50-minute class periods

DEFINITION AND SCOPE

Consumer education is the preparation of individuals in the skills, concepts and understandings required for everyday living so they can achieve within the framework of their own values, maximum use and satisfaction of their resources.

Consumer education involves the study of factors affecting consumer behavior, personal financial management, buying and using goods and services, rights and responsibilities of both buyers and sellers, basic economic principles, and sources of consumer information and assistance.

GENERAL GOALS OF CONSUMER EDUCATION

CONSUMER BEHAVIOR

The student will analyze the factors affecting consumer behavior.

- Values
- Goals
- Lifestyles
- Decision Making
- Advertising
- Career Choice
- Basic Skills
- Special Needs

FINANCIAL MANAGEMENT

The student will apply basic principles of sound financial management.

- Budgets
- Credit
- Record Keeping
- Insurance
- Bankruptcy
- Tax Forms
- Estate Planning
- Payroll Deductions
- Financial Services
- Savings and Investments

GOODS AND SERVICES

The student will demonstrate knowledge and skills in buying and using goods and services.

- Food
- Clothing
- Housing
- Transportation
- Education
- Recreation
- Health
- Professional Services

RIGHTS AND RESPONSIBILITIES

The student will analyze the interrelated rights and responsibilities of consumers, business and government.

- Consumer Laws
- Legal Rights
- Energy
- Complaint Methods
- Environment
- Product Safety
- Consumer Representation
- Current Issues

ECONOMICS

The student will relate economic principles to the functions of the marketplace.

- U. S. Economic System
- World Economic Systems
- Government Regulation
- Inflation and Recession
- Profits and Price
- Supply and Demand
- Taxation
- Unemployment

INFORMATION AND ASSISTANCE

The student will evaluate sources of consumer information and assistance.

- Federal Agencies
- State and Local Agencies
- Community Services
- Private Organizations
- Information Evaluation

The objectives of this module relate to one or more of the general goals of consumer education.

OVERVIEW AND RATIONALE

WHY STUDY ABOUT CONSUMER CREDIT?!?

Financial habits of the United States consumer have changed considerably in the past thirty years. From an economy in which consumers saved their money and paid cash for almost all purchases except homes, the United States has changed to an economy in which buying now and paying later is not only considered acceptable but is even encouraged with comments like "it's tax deductible," or "I'm paying back with inflated dollars."

In spite of increased consumer awareness and increased efforts at consumer education, this pseudo-sophistication regarding the use of credit appears to be just that -- a false wisdom, a sketchy and superficial understanding.

-- Credit costs vary widely, but research shows that people shop for the item they are purchasing, but not for the credit with which to obtain it.

-- Borrowers frequently do not know the characteristics of common lending institutions, and have an unrealistic idea of the interest rates they are paying on loans.

-- Some people think that the lender wouldn't lend them money if it wasn't good for them. In reality, a lender's primary concern is whether or not the amount loaned can be recovered, <u>not</u> whether it is good for the consumer's financial health.

-- People tend not to be aware of their alternatives in the event that they cannot meet their credit obligations, or of the consequences of actions taken by creditors such as repossession, garnishment, and deficiency judgments.

-- Credit users are not yet aware of the many protections afforded them by recent changes in consumer law regarding credit.

This module contains information which a consumer needs in order to operate effectively in that credit-oriented marketplace. After completing this module, the student will be able to:

1. Explain how and when use of credit makes sense in a personal or family budget.
2. Explain how to establish and maintain a credit rating.
3. Comparison shop for credit using the Annual Percentage Rate (APR) and the finance charge.
4. Identify five types and sources of consumer credit in Michigan and the major characteristics of each.
5. Explain possible solutions to the problem of inability to pay bills, including advantages and disadvantages of proposed solutions.
6. Identify the major laws which protect the rights of credit users and explain the protection provided by each.

PERFORMANCE OBJECTIVES

1. Using information in this section, the student will:

   1) Identify the amount of take-home pay that can safely be used for consumer debt.
   2) List three beneficial uses of credit.
   3) Recognize varying attitudes toward credit.

2. Following study and discussion of this module, the student will:

   1) List at least three characteristics a lender looks for before approving a loan application.
   2) Identify the type of information found in credit reports.
   3) Explain an individual's rights under the Fair Credit Reporting Act.
   4) List at least two ways of establishing credit.
   5) Explain how the Equal Credit Opportunity Act protects consumers.

3. Given a major purchase of the student's choice, the student will:

   1) Identify the dollar amount of the purchase.
   2) Identify the truth-in-lending disclosure requirements.
   3) List three actual sources of credit and the interest rates of each.
   4) Compare total cost of the purchase from each institution over different time lengths.
   5) Select a source of credit and give rationale for the selection.

4. Given a situation involving the use of credit cards, the student will:

   1) Fill out forms to obtain a credit card.
   2) Relate the advantages and disadvantages of owning credit cards.
   3) Determine the finance charge on the monthly unpaid balance.
   4) Explain how to report the loss of a credit card.
   5) Explain the individual's legal rights regarding credit cards under the Fair Credit Billing Act and Truth-in-Lending Act.

5. Given a case study in which the consumer cannot meet credit obligations, the student will list the advantages and disadvantages of alternative actions.

   1) repossession
   2) credit consolidation
   3) bankruptcy
   4) credit counseling centers
   5) debt management companies
   6) garnishments
   7) wage assignment
   8) attachments

_____ 1. The highest interest rate permitted in Michigan is 18%.

_____ 2. Finance companies specialize in

A. home improvement loans
B. car loans
C. small loans
D. mobile home loans

_____ 3. Savings and loan associations loan money mostly for

A. home mortgages
B. vacations
C. car loans
D. personal loans

_____ 4. If the car or appliance financed is repossessed, that always ends the debt.

_____ 5. When you get a loan, the lender must always give you in writing

A. the add-on interest rate
B. the discount interest rate
C. the annual percentage rate (APR)
D. the finance charge
E. both C and D

_____ 6. Experts feel that families normally should not commit more than 20% of their take-home pay to installment debt.

_____ 7. The first time your paycheck is garnished, your employer can fire you.

_____ 8. If you lose a credit card, you are responsible for all the charges made on it by another party.

_____ 9. The co-signer of a loan may have to pay off the loan if the other signer does not.

_____ 10. It is illegal to discriminate in the granting of credit based on sex or marital status.

_____ 11. There is, at this time, no way to correct mistakes in your file at the credit bureau.

_____ 12. If you pay back $1000 in 12 equal monthly installments at 10% annual percentage rate, you will pay $100 in interest.

_____ 13. A finance company is usually the cheapest place to borrow money.

_____ 14. In evaluating an application for credit, a lender would be least interested in which of the following

A. credit report
B. length of time on the job
C. take-home pay
D. marital status

HOW MUCH CREDIT CAN YOU AFFORD?

OBJECTIVE 1.

Using information in this section, the student will:

1. Identify the amount of take-home pay that can safely be used for consumer debt.
2. List three beneficial uses of credit.
3. Recognize varying attitudes toward credit.

Financial counselors indicate that most families should commit no more than 15% to 20% of their take-home pay to installment payments for consumer loans (this obviously does not include the mortgage payment). However, the only way to determine whether this figure is too high or too low for your personal situation is to analyze your own budget to find out how much income you can afford to set aside for monthly payments.

In analyzing the budget, you must be realistic. Too many consumers think of fixed expenses for necessities, but overlook the other smaller expenses. For example, Sue has a monthly take-home salary of $500, and she wants to know how much she can afford for monthly payments.

Sue knows that her rent is $150 per month. She estimates that her:

utilities are	$ 30 a month
food is	100 a month
gasoline is	40 a month
incidentals and fun money is	20 a month

Her estimated total is $340 spent per month.

With a monthly take-home pay of $500, Sue figures that she has $160 a month left for installment payments. In her impromptu budget she forgot:

car insurance at	$30 a month ($360 per year)
newspaper subscription at	5 a month
car repair and maintenance at	17 a month ($200 per year)
gifts and charity at	18 a month ($200 per year)
clothes, approximately	30 a month ($360 per year)

These forgotten items total an additional $100 leaving only $60 a month for credit payments, or 12% of her take-home pay. Other unplanned expenses such as medical bills and membership dues to the neighborhood tennis club would also have to come from this 12%.

If Sue had used her first estimate of $160, she would have been unable to meet her financial obligations without altering her budget and perhaps doing without something she really needed.

So, be realistic in analyzing your budget. Single people living at home and having a high take-home pay may find that they can afford more than 20% of take-home pay for installment payments. A family of five might find that 15% is much too high considering their fixed expenses, medical bills, and other unplanned expenses.

In determining how much you can afford for installment payments, do <u>not</u> count overtime pay since it is very difficult to predict whether one or two years from now (or even 1 or 2 months from now) you will still be receiving that overtime. Financial counselors report that severe problems arise when overtime stops, and people are forced to live on pay from a 40-hour work week. Therefore, plan your budget on the basis of take-home pay for 40 hours a week.

Do not anticipate raises. Avoid borrowing based on a raise that comes with a promotion, or even a cost of living raise. Sometimes the promotion never materializes, or the cost of living raise is smaller than you expected, or Uncle Sam gets a larger portion than you originally figured. Or, inflation raises your living expenses so much that the "cost of living" raise goes

for exactly that -- the increase in your cost of living.

When does it make sense to buy on credit? There really aren't any simple answers here, but the following questions will provide some guidance:

-- Is the item you plan to buy a luxury or a necessity? If it's a luxury perhaps you would be better off saving a set sum each week for it and paying cash at some future date.

-- Do you really need the item? Buying on credit tends to weaken sales resistance and to encourage impulse buying. Many retailers like customers to use credit, because research shows that the customer using credit spends roughly twice as much as does the cash-paying customer.

-- Could you use your savings instead? If doing so would wipe out your emergency savings, perhaps using credit would be a better idea. Many people who could pay cash prefer to use credit so that they will have adequate savings in an emergency.

-- Can you make the monthly payments without scrimping elsewhere in your budget? Or will it reduce the amount of money available for necessities?

-- Will the goods last longer than the payments? It can be exasperating to know that you are still paying for that vacation you took a year ago. But good living room furniture will be there to provide pleasure and comfort long after the last payment is made.

-- Do you find it hard to force yourself to save? Would making installment payments be one of the few ways that you could acquire goods like furniture, appliances, etc.? Some people can make monthly loan payments but not payments to a savings account. Be careful of this argument, some people use it to justify credit purchases they really can't afford.

-- Are you buying the item on sale? Is the price significantly lower, enough to justify the extra amount that you will pay in interest on the loan? Since sales on many items are seasonal and can be planned for, would you be better off to start saving now to pay cash for it next year when it's on sale?

While the information above offers some guidelines for the use of credit in your budget, the final decision is yours. Most lenders look at your loan application to see if you can repay the loan, not to decide whether it's good for you or your family. Young families especially should think carefully before committing themselves to payments based on the income of two spouses if one plans to stop working temporarily or permanently in the future.

Credit has proven to be an asset for many American families. Others have found it a constant drain on the family's resources. Only you can decide whether it will help you reach your financial goals.

Related Activities:

-- Your students' ideas about credit will be the product of their home and community environment. Some families use credit freely, feel comfortable with it, and share this with their children. Others find use of credit distasteful, use it only when absolutely necessary, and counsel their children to avoid it. Still others use credit extensively but do not discuss it with their children. Some communities are very thrifty and discourage credit use; others encourage credit usage.

To help you find out your students' attitudes toward credit and to help them explore different attitudes toward credit, ask them to answer the

following questions and then discuss them in class.

Agree	Disagree	
_____	_____	Everyone will use credit sometime during his/her lifetime.
_____	_____	Using credit is a sign of poor money management.
_____	_____	It's better to borrow than to use up a small savings account.
_____	_____	If you can't afford to pay cash, don't buy it.
_____	_____	No one should be allowed to go bankrupt because they shouldn't be allowed to get out of paying their bills.
_____	_____	Credit is bad because people often get into financial problems after using it.

-- After an initial discussion of people's attitudes toward credit, show the film "Consumer Power: Credit " (See resources page 52.) Does the film add any new insights to what the class has already discussed?

-- Ask the class to read the pamphlet "How to Go Broke on Plenty." Or show the filmstrip "Money Management"(See resouces page 53). Do only poor people have money problems? What does money represent to people? Are people really buying only clothes or transportation?

-- Show the film "The Money Tree " (See resources page 52.) Lead the class in a discussion of the role of money in marriage. What do married couples fight about most often?

-- Using the following case study, have the students give advice to Sally and George. Depending on what individual students value most, they may come up with different advice for Sally and George. There is no right and no wrong answer. A class discussion of the reasons for the different advice may help the class realize that not everyone has the same opinion about the wise use of credit.

CASE STUDY -- BUYING ON CREDIT

Sally and George want to buy furniture for their apartment. They are both working and between them their take-home pay comes to about $900 a month. They pay $250 for rent each month for an apartment, and their heating and air conditioning bills average about $45 each month. They each have their own car. Sally's car is paid for, but George's isn't -- the payments of $133 a month will continue for another two years. They were married only one year ago and are still paying for their honeymoon in Europe at the rate of $70 a month. Because of the expenses of setting up their apartment, and because they enjoy eating out and entertaining, they have saved only $200. They both want to have children soon. Although Sally plans to return to work within six months after the baby is born, for the six months she is off work, their income will drop to $430 a month. They have seen some living room and dining room furniture which they both like. The total cost, however is $1500. Paid for over two years, the monthly payments would be $72.73. George says they can afford it easily and wants to buy it now. Sally, however, isn't sure. What advice would you give Sally and George?

-- Sally and George are both working. What would happen to their budget if Sally wanted to stay at home after the baby was born to get a college degree? What would happen if George were laid off? What if either of them were disabled for six months? How would any of these changes affect their use of credit? Their ability to repay?

-- Give your students a situation revolving around some of the emotional traumas of debt and ask them to role play. The situation could concentrate on the strains debt can put on a marriage. Or the hassles of bill collections on the phone, at the door, in the mail.

CREDITWORTHINESS

OBJECTIVE 2.

Following study and discussion of this module, the student will

1. List at least three characteristics a lender looks for before approving a loan application.
2. Identify the type of information found in credit reports.
3. Explain an individual's rights under the Fair Credit Reporting Act.
4. List at least two ways of establishing credit.
5. Explain how the Equal Credit Opportunity Act protects consumers.

Not every loan applicant receives the loan requested. Why? Lenders do not wish to loan money to people who cannot afford to pay back or who will refuse to pay back. To weed out those it considers bad risks, the lender looks for certain desirable characteristics in a borrower. These have traditionally been called the three "C's": Character, Capacity, and Collateral.

Character -- Willingness to repay is the key trait that a lender looks for here. Do you regularly pay your bills on time, as agreed? Even if you always pay your bills, but consistently pay them late, you may find it more difficult to get credit, since it costs more to lend to you. You are using the lender's money for a longer time, and it costs more to collect from you.

Capacity -- Do you have enough income to make the loan payments? How many other loan payments do you have, and will this one take money away from your necessary living expenses? How likely is your income to continue? How long have you been on the job? Many lenders find their greatest losses have been to people who have been employed for less than 2 years. These people are more likely to quit because they don't like the work, to be fired for inadequate performance, to be laid off in times of recession, or to be transferred to distant locations.

Collateral -- What kinds of property do you own that will convince the lender that you are a good risk? Do you own your home . . . have a savings account . . . have investments . . . furniture . . . a car? Do you have something that can be repossessed if you don't make the payments? Usually if you are borrowing for something tangible, like a car or furniture, the lender will require that it be used as security both to encourage you to make the payments as agreed, and to assure that the lender will get back at least part of the money loaned to you.

When you apply for a loan, you will usually fill out a written application and be interviewed by a loan interviewer. A credit report may be obtained about your bill paying habits. The written application asks for information such as where you live, how long you have lived there, where and how long you have worked, how much money you earn and your other bills. It's important to fill out this application truthfully and completely. Do not state that you have no other debts if that is not true. Lying on an application can create serious problems if you can't make payments later, since you received the loan under false pretenses.

The loan interviewer will review your application, find out exactly what it is that you want, and be certain that you understand the terms of the loan and when payments are due.

A very important part of your application process will consist of something that you don't even see -- your credit report. A lender can check with each of the places that you indicate you have loans with, and thus verify the information you provided. More likely, however, it will be less expensive and time-consuming to call the credit bureau in the area and ask for your credit report. The credit bureau collects information on your bill-paying habits and then sells this information

to businesses and individuals in the community who have a legitimate use for this information, such as employers, lenders, insurers and landlords. The information in your credit report is confidential. Persons without a legitimate use for the information are not permitted to see it, and those who do are obligated not to reveal it to others.

The most important part of your credit report consists of how you pay your bills. An entry might read: Borrowed $2000 from ABC Finance on September 1, 1976; current balance $1498.33 with payments of $70 a month, pays as agreed. "Pays as agreed" is the best credit rating that you can get. You either pay your bills on time as agreed in the contract or you don't. If you were not paying as agreed, the report would indicate how many payments were past due. This type of information may be provided on all loans that you have. Other information in the report may include information on your employment and salary, court judgements against you, bankruptcies, loans turned over to collection agencies, and sometimes information on the amount of money you have in savings and checking accounts.

The credit bureau does not rate borrowers, or tell a lender to lend or not lend to someone. It merely presents to a lender the information that it has gathered and allows the lender to make a decision based on that information and its own lending policies. The information could well be mixed, that is, you could be paying as agreed on some accounts, and be two or three months behind on others. The credit bureau rates your accounts and how you pay on them; it does not rate you the credit applicant.

Whether or not your file at the credit bureau is up-to-date can depend on a variety of factors. Some credit bureaus now get computer data from the large businesses in their area on a regular basis, and their files are updated very frequently. Some credit bureaus, however, still collect data only when it is

requested. For example, the lender calls the credit bureau for a report on you and is told that there is no file. But on your loan application you listed two loans. The lender may give this information to the credit bureau to be checked out. The credit bureau would then call the lenders you listed to verify those accounts. Your credit report is now current but the information may not be updated again until the credit bureau is asked to do so.

Since passage of the Fair Credit Reporting Act, you now have certain rights regarding your credit report. If you are turned down because of information in your credit report, the lender must tell you so, and give you the name and address of the credit bureau that supplied the information. You then have the right to go to the credit bureau and ask to see the information in your file. It is possible that incorrect information has gotten into your file by mistake, or that information has been misreported. If so, the credit bureau will correct the information and send it to those you name who have received the incorrect information.

If you want to see your credit report merely out of curiosity, you can do so, but the credit bureau may charge you a small fee. The credit bureau sells this information to creditors, and has the right to sell it to you too -- unless you have been turned down for credit because of it. Some credit bureaus however, allow you to see your file without a charge. As more of the information in your file is updated by computer and the chance of error increases, some advisers suggest that checking your report is a good idea. People making large purchases such as a home may want to do so. Correcting any misinformation in your file ahead of time may speed up your loan application.

Sometimes you may have a disagreement with a merchant over a bill and you will refuse to pay it because of this disagreement. For example, your records show that you have already paid the bill once, and you do not intend

to pay a second time. The merchant turns the account over to a collection agency. You have the right to insert your side of the story into the record in 100 words or less, and in the future this will be included in any reports given to creditors. The creditor will then take this into consideration. Thus you do not have to be forced into paying a disputed bill by the threat of having your credit rating destroyed.

How does a person go about establishing and maintaining a credit rating? It is sometimes difficult, especially for young people, to get credit because those characteristics that a lender looks for are often missing. A young person often has no file at the credit bureau because there has been no need to borrow before, income is frequently small in entry level jobs, the young person hasn't been on the job very long, and often has little in savings, and not much collateral. To help prove your ability to make regular payments, make regular (even if they are small) deposits to a savings account. If you have a checking account, use it properly. Paying rent and utilities on time helps somewhat in establishing creditworthiness, but not a great deal because of the forced nature of the payments. Borrowing when you don't need to is another way to establish credit but it can be expensive if you aren't careful. If you have money in a savings account, you could borrow money using the savings account as collateral. Since there is little risk to the lender, you will probably get the loan. If you pay the loan back as agreed, you will have begun to establish your creditworthiness.

You can also apply for credit at retail establishments that want young people's business, such as clothing stores and music and stereo stores. They will sometimes make a greater effort to arrange credit for you since selling goods is dependent on your having cash or credit. A credit card that you can pay off each month in full without incurring a finance charge would be an inexpensive way to prove your ability to pay bills; however, credit card usage

involves some risks to be discussed later in this module.

While you may get credit in your own name, it is very likely that on your first loan, especially if it is a large one, a co-signer, or co-maker will be required. A co-signer does not just give you a character endorsement, but actually agrees to be liable for the entire loan. If you don't pay, the co-signer will. Parents will often agree to be co-signers for their children, but any creditworthy adult can co-sign. If you make the payments on time, a co-signer will not usually be required on the second loan. However, lending policies vary from lender to lender, and some lenders will insist on a co-signer a second and third time to make the loan additionally secure. If anyone ever asks you to co-sign, think very carefully about whether you can afford the added liability.

To maintain your creditworthiness once established, pay your bills on time, and if you run into difficulty, contact your creditor. Paying bills on time as agreed is important. Some people ask: "I always pay my bills, so what difference does it make if I'm a few weeks late?" The reason is that it costs more to lend to people who consistently make their payments late. The lender does not have the use of the money to reinvest as soon as expected. Also, many lenders send out reminder letters after a payment is 7 to 10 days past due, and this letter is an added expense. Consistently making payments late will not necessarily make it impossible for you to get credit, but it will make it more difficult and sometimes more expensive.

Remember, your accounts are rated by the credit bureau according to your usual manner of payment. If you forget to make a payment until after the due date one month, your usual manner will still be "as agreed."

The Equal Credit Opportunity Act has given you additional rights when you apply for a loan. The law says that a lender shall not discriminate against a

credit applicant because of race, color, religion, national origin, sex, marital status, or age (provided that the applicant has the capacity to enter into a binding contract), or the fact that all or part of the applicant's income derives from any public assistance program. The law does not mean that everyone who wants credit will get it; it does mean that a lender must grant or deny credit based on the creditworthiness of the applicant rather than other unrelated factors.

A lender should not have different criteria for married men than single men, or for divorced women than married men. A retiree should not be denied credit merely because income is based on social security and pensions rather than earnings. And an individual's race, color, religion and national origin have no bearing on willingness and ability to repay a loan.

Some of the rules which lenders must follow to comply with the law include:

-- A creditor shall not request the sex of an applicant.

-- A creditor shall not request information about birth control practices, intentions concerning the bearing or rearing of children or capability to bear children. But a creditor can inquire about the number of an applicant's dependents.

-- If an applicant applies for an individual, unsecured account a creditor shall not request the applicant's marital status.

-- A creditor shall not inquire whether any income stated in an application is derived from alimony, child support, or separate maintenance payments, unless the creditor appropriately discloses to the applicant that such income need not be revealed if the applicant does not desire the creditor to consider such income in determining the applicant's creditworthiness.

-- Part time income cannot be discounted if it is steady, dependable income.

-- In the absense of evidence of inability or unwillingness to repay, a creditor shall not take any of the following actions on an existing open end account on the basis of the applicant's reaching a certain age or retiring, or on the basis of a change in the applicant's name or marital status: 1) require new application, 2) change the terms of the account, or 3) terminate the account.

-- Beginning June 1, 1977, accounts used by both spouses, or for which both spouses are contractually liable, shall be reported to consumer reporting agencies in both names.

-- If the creditor denies an application, the applicant must be notified in writing within 30 days either of the reasons for the denial or the right to receive the reason for denial.

These are just some of the rules under the Equal Credit Opportunity Act, some of which get very complicated. The last one mentioned here, that an applicant be informed of the reason for denial, is probably one of the most helpful. If you are denied, does the reason make sense? If it's vague, ask for clarification. Knowing precisely why you were denied can help you evaluate your financial position. If you feel that you have been discriminated against on a prohibited basis, contact the regulatory agency mentioned in your denial letter.

Related Activities

-- Review the credit application (Appendix, page 65) with the class and discuss why a lender would want certain types of information. What information is required by the Equal Credit Opportunity Act?

-- Identify a group of students who are to act as a "credit committee," that is, they will accept or reject an application for a loan. Present this committee with several applications that you have filled in with information, and ask the committee to either approve or disapprove the loan. Ask them to justify their decisions. Some disagreement within the committee may point out the fact that different lenders have different credit criteria. If they reject a loan application, ask another student to "role play" the loan applicant, who will appeal the committee's decision. Provide the student a script that admits that the loan is borderline, but that without it, the applicant will never be able to qualify for a better paying job, and the family will always be poor.

Another situation might be that the family has always paid its bills on time before, but with the breadwinner laid off, for six weeks, they did get behind, and without this loan, all their other creditors will be pressuring them. Have the committee re-evaluate its decision. Should the loan decision be made purely on the basis of assets and collateral? Or should the character of an individual and the need override strict credit granting criteria?

-- Review with the class the FTC "Buyer's Guide No. 7: Fair Credit Reporting Act." Then invite a person from the credit bureau to speak to the class,or take the class to the credit bureau. Does the credit bureau update its material by computer, or by hand? Does it charge consumers to see their files? Does it include marriage and divorce information? Traffic tickets and court judgements? Does it do investigative reports? Can married people have separate files? How is information on married people reported?

-- Invite a representative from an area financial institution or from a retail credit operation to discuss criteria they look for in a loan applicant. Are they interested in how long a person has been on the job? Does the amount that they will loan depend on this factor? Do they often require co-signers? What is their policy in regard to young people? Do they regard no credit experience as bad credit experience? Do people who borrow lots of money but always make their payments on time have a better chance of getting a loan than a person who saves and pays cash? Can minors get a loan?

-- Using a sample credit report from your local credit bureau or from student workbooks such as Elsie Fetterman's (see Resources), review in detail the nature of the information included.

SOURCES OF CREDIT

OBJECTIVE 3.

Given a major purchase of the student's choice, the student will:

1. identify the dollar amount of the purchase.
2. identify the truth-in-lending disclosure requirements.
3. list three actual sources of credit and the interest rates of each.
4. compare total cost of the purchase from each institution over different time lengths.
5. select a source of credit and give rationale for the selection.

Shop for credit! Like most everything else you buy, credit has a price tag, and it pays to shop for it. Much research indicates that consumers may shop diligently for the best deal on their car or color television set, but then automatically accept the dealer's financing which will likely cost more than other types of financing available to them.

How do you compare credit costs? Compare the Annual Percentage Rate (APR) and the finance charge. Under the Truth-in-Lending Act passed in 1969, a lender must give you the annual percentage rate and the finance charge both orally when you inquire about the loan, and in writing when you sign the loan contract. Before passage of the act, it was difficult to compare the cost of credit because of the many ways interest was figured and quoted. (See "Figuring Interest," Appendix, page 56.) However, the way costs are quoted is now standardized so that you can compare information between lenders.

The lender must give you the annual percentage rate (not the add-on rate or the discount rate or any other kind of rate) and the finance charge (the total dollar cost of the credit). Your installment loan contract must contain the following information:

-- the cash price of the item you are purchasing

-- the amount of your down payment

-- the total amount to be financed (cash price minus the down payment)

-- the dollar amount of the loan

-- the number and amount of payments

-- the date payments are due

-- any other charges such as processing fees, insurance fees, etc.

Interest rates are important for comparing the cost of credit among different lenders. But the actual dollar cost (the finance charge) may have more meaning to you. So ask for it. If you are shopping for a new car loan, for example, call a variety of lenders. Tell them that you want to know the cost of borrowing $3000 for three years for a new car loan. They might tell you: 'We are lending for new cars now at a rate of 12% for three years for a total credit cost of $587.04, with payments of $99.64.' Just a word of caution here: Don't be misled by a small monthly payment. The total cost of credit must be considered. The lender can give you a low monthly payment but only by stretching the loan out for a longer period of time. And when the lender does so, it costs you more in interest. For example: by setting up your $3000 car loan for 4 years (48 monthly payments) instead of 3 years, your payments will be reduced to $79, but the cost of the loan will go up to $792. The longer you use someone else's money, the more it will cost!

So shop for the total cost of the loan. And ask for a repayment period as short as you can afford. By paying the above loan off in only two years instead of three years, payments would go up to $141.22, but the cost of credit would come down to $389.28.

Interest rates can mislead you if you don't look at the total dollar cost too. Look at the payment chart in the Appendix, page 63. If you can afford payments of $179.57, it would be cheaper to borrow $2000 at 14% for 12 months at a credit cost of $154.80, than to borrow the same $2000 at only 12% but for 18 months at a credit cost of $195.40, with monthly payments of $121.97. Ideally, you should

shop for the lowest possible interest rate and set up the loan payments for the shortest possible period of time.

How much leeway do you have in setting up payments? Most lenders have maximum loan periods beyond which they will not grant a loan. For example, most lenders will not loan money on new cars for more than 48 months, although a few will extend the loan to 60 months. However, you can usually set up a loan for any period less than the maximum as long as the lender thinks that you can meet the payments. The maximum repayment periods will vary for different types of loans. Most used cars for example are financed for shorter periods than new cars.

What else do you need to look for besides the finance charge and the annual percentage rate? Many lenders also sell life and disability insurance on loans, and before you get your loan, you need to decide whether or not you need insurance, and if you can get the insurance cheaper somewhere else. If the lender requires you to buy credit life insurance (insurance which pays off the remainder of your loan if you die before paying it in full) the cost has to be included as part of the finance charge, and must be included in the APR which you are quoted. Therefore most lenders give you the option to accept or reject the credit life insurance. However, some pressure may be put on you to buy it because lenders usually get part of the premium for selling it. If you don't want it, don't buy it! It would add about $65 to the $3000 car loan we mentioned above, but it would also increase the interest charge, because when you buy the credit life insurance, you borrow its premium too. Instead of borrowing $3000, you would be borrowing $3065. Credit life insurance is merely a life insurance policy geared to a special need -- to pay off debts. Any other life insurance policy could do the same thing, and probably be less expensive, since credit life insurance tends to be an expensive form of life insurance.

You could also buy credit disability insurance. Credit disability insurance makes your payments for you if you are out of work due to illness for a period of time stated in the policy, usually one month. On the $3000 loan above, the cost would be about $100 (which would be added to your loan balance, so you would be paying interest on it too).

Another fee sometimes added to the cost of a loan is a processing fee. The maximum "processing fee" allowed in Michigan is $15.

SOURCES OF CREDIT

It's important to shop for credit, but where do you shop? What are some of the characteristics of different lenders?

Loan Sharks: Loan sharks are illegal lenders, illegal because they loan money at usurious rates -- rates beyond the legal limits set by the state. Since their interest rates are illegally high, often as high as 1000%, their collection techniques are also sometimes unlawful. Loan sharks do exist in Michigan, but according to some sources, are used primarily by individuals engaged in illegal activities. Avoid loan sharks! They are trouble you don't need.

Pawnshops: Pawnshops loan money on "pawns" or collateral brought in by the borrower. Perhaps you have a ring of some value, and you need some cash temporarily. The pawnbroker may offer to lend you 25% of its value (in some cases, even less). If you bring back the borrowed money plus interest (the maximum permitted in Michigan is 36%), you will get back your ring. If you do not bring back the money within six months, the pawnbroker will sell your ring. The advantages of a pawnshop are that you do not have to have a credit rating, only some object of value, and there is no set repayment schedule. The disadvantage is that you must have something of value, and you risk losing it if you do not repay the loan as agreed.

Life Insurance: If you have a whole life insurance policy, you can borrow on its cash value. The interest rate will be determined by the rate stated in your insurance policy, a rate which is usually quite low -- from 5 to 7%. The loan is usually sent promptly with no questions asked because it's a policy right of the owner. There is no set repayment schedule, so the loan might never be paid back. However, in the event of your death, your insurance coverage is reduced -- the amount of the loan is subtracted from the face value of the policy before being paid to your beneficiaries. Also, the cash value of a policy builds slowly in the early years so that the option of borrowing on the policy may not be available for some time after you purchase a policy.

Small Loan Company: Finance companies, sometimes called small loan companies in Michigan, cannot loan more than $1500 to one individual. On the first $400 of a loan, they can charge a maximum of 30%, and on the remaining $1100, they can charge 15%. On a $1500 loan, the two rates averaged together would come to 21.7%. Finance companies do deal in small loans which cost just as much as larger loans to process, and they claim to make loans to people who may not be able to get loans elsewhere, therefore justifying their higher rates. There are some differing points of view about loaning to people who are borderline risks. Some people who have worked in the industry feel that these people need a legal source of credit. Others outside the industry say that perhaps these borderline risks should never receive credit at all, since it merely increases their financial problems.

Savings and Loan Institutions: Savings and loans were originally founded to make home mortgage loans. Passbook loans (using your savings account as collateral) at a low rate are a good possibility here. The maximum rate permitted at savings and loans is 14.5% on consumer loans, and 11% on first mortgages.

Credit Unions: Credit unions are non-profit financial organizations started by people who have something in common, to provide themselves with financial services.

You must be able to join before you can use its services. The most common "common bond" is working for the same employer. For example, all the school employees in one school district, or even in one county might be eligible to join a credit union for that group of school employees. Another common bond is church affiliation. Many church groups have begun credit unions. Yet another common bond is the community -- all members of a certain city or town or county might be eligible to join the credit union. It's important to note that the credit union is not owned by the employer, by the church, or by the municipal government -- it's owned by the members who have joined it and who borrow and save there.

The maximum loan rate permitted by credit unions chartered by the federal government is 12% and those chartered by the state, 15%. Some credit unions also offer "rebates" (returning part of the interest paid) at the end of each year, which lowers the cost of the loan. Most credit unions also offer credit life insurance at no additional charge beyond the quoted interest rate.

Banks: Banks are profit-oriented organizations which provide a variety of financial services. The maximum legal rates at the bank vary from 12.5% to 16.2%. Banks will lend for most purposes; however, some do not make small loans of less than $500 or $600, except on their bank credit cards. While banks have discovered that consumer loans can be profitable, they still tend to have strict credit rating requirements.

Banks also offer bank charge cards on which the legal maximum interest rate is 18%, the rate which most bank credit cards are charging. If the bill is paid by the due date, no interest is incurred at all, at least not at the present time. However, a bank in New York has begun charging customers a minimum fee of 50¢ even if they pay the bill by the due date. This charge has not yet reached Michigan.

Store Credit: Many stores offer two types of credit -- credit cards and installment loans. Installment loans are set up for large purchases such as appliances and furniture, while credit cards are normally used for less expensive items. The legal maximum on the store's installment loans is 21.57% on the first $500, and 18.17% on anything over $500. And the store's credit cards are subject to a maximum of 20.4%, although most stores use the more common 18% (credit cards will be discussed in more depth in the next section.)

The above summary has listed the maximum legal rates, but lenders are not required to charge the maximum rate, and many do not. The pamphlet "How to Shop for Credit" published by the Michigan Department of Commerce (see Supplemental Resources, page 55) lists both the legal maximums and the common rates. Lending rates do change based on economic conditions, so it is important to shop for credit whenever a purchase is made. The lender with the best rate this week may not be the lender with the best rate next week. Lenders also have specials or "sales" on loans every now and then, and the only way that you will learn about them is to call or write to ask for information.

In addition to the maximum interest rates set for certain financial institutions, maximums have been set for certain kinds of loans. If you finance a new car through a car dealer, the maximum you can be charged is 12.81%, and 21.2% for a used car more than 2 years old. If you finance a home improvement through a contractor the maximum permitted is 14.68%.

Related Activities

1. Using a sample loan contract, have students identify the Truth-in-Lending disclosures, especially the APR and the finance charge.
2. Using the "Comparing Auto Loan Costs Chart" in the Appendix, page 64, have the students survey local lenders regarding car loans. The students should analyze the total costs for each source of credit. Rather than asking all

your students to do this in a small community with few lenders, you may wish to assign just a few students to gather this information for the class. Review the results with the class.

3. Interest rates on appliances will vary more than car loans, and loans for applicances will be available from a greater variety of lenders. Using the example of a washer and dryer or a stero system with a set price, ask students to find out the down payment requirements, the interest rate, the maximum repayment period allowed and so forth at a store, a bank, a credit union, a finance company, and a credit card.
4. See additional activities in the section in the Appendix "Figuring Interest."
5. Using the loan payment chart on page 63, ask students to look at a variety of repayment options for a $4,000 loan using different interest rates and different repayment periods. How would they decide which option to choose? Do they feel strongly that the lowest monthly payment is important? A low interest rate? The total cost of the loan? Give them some case studies and have them make the choice for the people in the studies. (The low monthly payment can be justified in some circumstances but the student should be aware of the extra cost this entails.)

CREDIT CARDS

OBJECTIVE 4.

Given a situation involving the use of credit cards, the student will:

1. fill out forms to obtain a credit card.
2. relate the advantages and disadvantages of owning credit cards.
3. determine the finance charge on the monthly unpaid balance.
4. explain how to report the loss of a credit card.
5. explain the individual's legal rights regarding credit cards under the Fair Credit Billing Act and Truth-in-Lending Act.

Credit cards have become an accepted part of American life. There are three basic types of credit cards: store, bank and travel and entertainment. Travel and entertainment cards are used primarily at restaurants and hotels. (Not all hotels and restaurants will accept them.) There is usually a yearly charge for the card, and the bill must be paid in full when it is due. There is, however, no limit to the amount that you can charge on them. Store or retail cards are good only at the store which issued them. There is no charge for the cards since the retailer wants you to be able to purchase more goods. Just the opposite of charging for their cards, the stores run contests among employees to see who can open the most new accounts. Store employees often ask the consumer, 'Cash or charge? Would you like to open an account with us today?' On the store charge cards you usually have the option of paying the balance in full by the due date or making monthly payments according to the schedule in your agreement with the store. Gasoline and department store cards are examples of this type.

Another kind of card is the bank credit card. Bank credit cards are accepted at a wide variety of stores and businesses, although not all stores will accept them. In addition to using these cards to purchase goods, you can get cash advances on them at participating banks. You have the option of paying

the balance in full or making monthly payments.

When you apply for the card, both the store and the bank credit cards set a dollar limit on how much you can charge. For instance, you might qualify for a $500 maximum. At no point should your unpaid balance go above that amount, and it's up to you to keep track of the total. If you charge purchases that increase your balance over your agreed maximum, the usual reaction is for the store or bank to demand the card back. However, in some instances, to the dismay of an overextended credit card holder, the reaction of the lender has been to increase the maximum!

How does the credit card work? Let's use a bank credit card as an example. You charge $100 worth of goods at one store, $35 at another, and $60 at still another. Each of the stores sends it charge slips to the bank. The bank pays the store after deducting a certain percentage for paperwork. (The first store might get only $98.) The bank computes the amounts that you owe, and sends you an itemized monthly statement. Some stores are slow in sending in the charge slips, and in our example the $35 charge did not get to the bank before the close of your billing cycle. So for this month you get a bill for $160. If you pay the bill in full, you will not be charged interest. However, if you cannot pay the balance in full, you can instead pay the minimum monthly payment required in the agreement, which would be $10.

If you decide to pay the minimum payment, you will be charged interest at the rate of 18% annual percentage rate, which comes to a <u>monthly</u> rate of 1½%. The mystifying question is: which balance will they charge interest on? Two methods are permissible in Michigan, the adjusted balance and the average daily balance, as explained in the pamphlet "The Michigan Credit Buyer's Guide." Many credit cards have switched to the average deaily balance method. Let's assume that the average daily balance on the above example was $125. The interest would be $125 x 1½%, or $1.88, which would be subtracted from your $10

payment, and $8.12 would be subtracted from your balance of $160, giving you a new balance of $151.88. If your maximum was $300, you could still borrow another $113.12 -- $300 minus $151.88 minus $35. If you do not charge any more goods during the next month, your next bill will show a new balance of $186.88, and you will once again have the option of paying the balance in full or making the minimum monthly payment.

The next question is, "should you own credit cards?" The answer is not a simple one because it depends on how you handle money. If you make purchases only after considerable thought, if you budget your money carefully, and generally pay off the balance each month, credit cards can be an asset. They offer convenience. They allow you to use someone else's money at no charge. They help in recordkeeping. They allow you to take advantage of unexpected sales or bargains. And they permit you to carry much less cash than might otherwise be necessary.

But what if you are an impulsive spender, one who spends whatever happens to be available? With a credit card, money will always be available, at least until you reach your maximum. The misuse of credit cards has caused many people serious financial problems. While the maximum permitted on any one card may be small, some people own several of them, and the total that they owe may be greater than their ability to repay. For impulsive spenders, for people who do not plan purchases carefully, for people who have difficulty stretching their paycheck from payday to payday, credit cards are not recommended.

In an April, 1976 article entitled "Don't Let the Credit Pushers Trap You!" Changing Times reported: "One or both of the two major bank cards -- BankAmericard and Master Charge -- can be found in about a third of all households. Seven out of ten bank card holders use the card's minimum-payment feature. And they spend more. As one study of ten medium-sized department stores showed, the average cash sale was $8.25, the average store credit card sale was $15.93, and

credit card companies are including on the back of every statement. If you have questions about your bill, follow those instructions, noting particularly that you must put your dispute into writing to preserve your rights under the law. (See also "Holder in Due Course" p. 77 regarding rules on credit card purchases.

Related Activities

1. Using an overhead transparency of a credit card agreement (see page 34 of Sally Campbell's "Credit Cards" Learning Activity Package as listed in Resources Supplement) analyze the terms of the agreement such as how interest is to be figured, clauses which give creditors added rights such as charging their attorney fees to the cardholder, the right to revoke the card at will, etc.
2. Bank credit card companies have learned that older and higher income people are very good risks but they seldom use the minimum monthly payment feature of a credit card. In order to make a profit, credit card companies learned that they have to market credit cards to the heavy users -- young families with children and a constant need for funds to furnish and maintain a household! Ask your students if they remember any credit card advertising. If so, analyze the advertising. To whom does it appeal? How old are the people in the ad? What advantage of credit cards are they promoting? (Research indicates that credit cards are most often used for clothing and by relatively young people.)
3. Review with the class a sample credit card statement. (Use your <u>own</u> statement or sample statement in Sally Campbell's "Credit Cards.") Clarify the meaning of the disclosures and have students figure out the balance on which interest was charged. If figured on the average daily balance, have students arrive at the same balance the computer did.
4. After reviewing the pamphlet "The Fair Credit Billing Act" with the class, have students role play to demonstrate proper procedure to correct credit

card billing errors.

5. Using the application in Sally Campbell's "Credit Cards," have students fill in the applications.
6. Role play the correct procedure for reporting lost and stolen credit cards.

WHEN YOU CAN'T PAY YOUR BILLS

OBJECTIVE 5.

Given a case study in which the consumer cannot meet credit obligations, the student will list the advantages and disadvantages of alternative actions.

1. repossession
2. credit consolidation
3. bankruptcy
4. credit counseling centers
5. debt management companies
6. garnishments
7. wage assignment
8. attachments

If you don't pay your debts, what can your creditors do? The creditor has a variety of legal tools to enforce collection, many of which are contained in the contract itself. A standard clause in many contracts, called an acceleration clause, says that if you miss a payment, the lender can demand immediate payment of the rest of the loan. The lender may not invoke this clause depending on your personal circumstances. The lender might invoke this clause after a repossession, if there was reason to believe that you planned to take the collateral (a car, for example) to another state. Usually the debtor has a right to "redeem" repossessed collateral (get it back) by making up missed payments and any costs of repossession. But if a lender thought that the debtor would redeem the collateral with only the missed payments, and then disappear with it, the lender would invoke the acceleration clause declaring the entire balance due and payable. If the borrower could not pay the entire balance, the lender would probably sell the car to insure collection of at least part of the debt.

At the present time, "self-help" repossession is permitted in Michigan without a court hearing, although it has been forbidden in some court jurisdictions. This means that if a secured auto loan is past due, the lender can, without a court hearing, pick up the car and sell it to recover as much as possible on the loan. Before considering repossession, however, a lender will sometimes wait two or three months or even longer depending on what the debtor's problem is and how

cooperative the debtor has been. In many cases, the debtor will offer to bring the secured goods in as a "voluntary" repossession.

If the debtor cannot "redeem" the repossessed goods, the lender will sell the repossessed goods and apply the money to the balance of the loan. In many instances the money gained from the sale of the goods is not enough to pay off the loan. For example, a lender finances your new car for $4000. You make no payments for four months before the lender repossesses the car. Since new cars tend to depreciate very rapidly in the first year of ownership, and the public tends to offer low bids on repossessions, the lender often can get only the wholesale price of the car. Perhaps in this instance, the price the lender can get is $3500. In addition there may be late payment fees, interest for the four months, the cost of repossession, and if the lender goes to court, attorney fees (most loan contracts specify that the lender can charge the borrower for the lender's attorney fees if it is necessary to go to court). Thus you may still owe a deficiency balance of over $700 or $800 on a car you no longer have. Of course, if the lender gets more for the car than the balance owed, the difference must be returned to you.

If you find yourself unable to pay for your car or other secured loan, contact your creditor to make some kind of arrangements. If you volunteer to bring the car in, you will save extra fees and charges. For many people an even better solution would be to sell the car yourself since you will probably be able to get a better price for it than the lender.

If a deficiency balance exists after repossession or after you sell the car, and you do not make satisfactory arrangements to pay this balance, the creditor may go to court and get a deficiency judgment (in the example above for $700) which gives the creditor the right to collect on the deficiency balance for ten years. Thus for ten years, the lender can garnishee your salary if you have a job, or attach other assets of value. Wage garnishment

is a legal action by the creditor to have part of your paycheck sent to the court to be paid to the creditor. Garnishment requires a court hearing with notice sent to you. After receiving such a notice, you could stop garnishment by working out satisfactory arrangements with the creditor. The amount of money that a creditor can take by garnishment has been limited by federal law. In 1977 none of a worker's paycheck can be garnisheed if the take-home pay is less than $69. If the take-home pay is over $69 but less than $92, only the amount over $92 can be garnisheed. If the take-home pay is over $92, only 25% of take-home pay can be garnisheed. The dollar amounts not garnishable increase as the minimum wage increases. These restrictions, however, do not apply to court orders for child support or alimony, or debts for state and federal taxes. The creditor pays court fees to have a garnishment processed, and can add those to your loan balance. Since the creditor must go to court every payday to have the garnishment renewed (at a cost of $5 to $10 per time), garnishment could add substantially to your debt if continued for any long period of time.

Before 1969 when the Truth-in-Lending law limited garnishments, employers could automatically fire employees whose salaries were garnisheed, thereby compounding an already troublesome problem. The law now says that an employee cannot be fired for garnishment for one debt. In other words, you can be garnisheed for the same debt every week until it is paid off and the employer cannot legally fire you. However, if you are garnisheed for two different debts at the same time, the employer can fire you without hesitation, and might do so to avoid the extra paperwork involved with garnishments.

A few states have completely outlawed garnishments because of their distressing tendency to drive people to bankruptcy. In his 1965 study, Robert Dolphin, Jr. indicated that while only 10% of the bankrupts in Flint had been

garnisheed, 80% said they had been threatened with it, and 75% indicated that such threats were the reason they filed for bankruptcy. Rather than run the risk of loss of income or job, they filed bankruptcy, sometimes for relatively small sums of money.

Wage Assignment is somewhat different from garnishment. It permits your creditor to collect on a past due account by having your employer send payments to the creditor without a court hearing. You may not know about the action until payday, when your paycheck will be smaller than usual. A wage assignment is not buried in the fine print of a standard contract. It is a form of security or collateral that a lender may ask for -- and as such has to be specifically listed on the security agreement. Before signing any loan document, read it carefully so you understand what you are agreeing to!

Attachment is another tool that a creditor can use in certain circumstances. Perhaps the creditor gave you a signature loan, that is, a loan with no security except your word that you would repay. There is no security or collateral to repossess. And perhaps you are not working and there is no paycheck to garnishee. If the creditor feels that you may leave the state or hide your assets, the creditor can, after going to court to get a judgment against you indicating that you do indeed owe the money and are behind on your payments, get a writ of attachment to seize some of your property to pay off the loan. Not everything you own can be attached. You must be left with a certain amount of clothes, household goods, tools, etc.

The confession of judgment is a clause in a loan contract in which you agree that if you get behind on your payments, you are automatically guilty and you agree that a judgment be entered against you in court without a hearing, and that costs for entering the judgment can automatically be assessed against you. You are agreeing that the creditor can collect on the debt without due process of law; you are waiving some of your rights, and for this reason, its use has been limited. Under Michigan law you must agree to a confession of judgment in an

instrument separate from the contract, and cannot be used at all by some lenders.

Can you go to jail for not paying a debt? While debtor prisons were abandoned long ago and it is highly unlikely that a debtor will go to jail, it is still possible for a debtor to receive a contempt of court order with a resulting jail sentence. Also, it is possible that a borrower will go to jail if fraud or intent to defraud the creditor can be proved.

As we have seen, the creditor has an array of tools with which to collect from you. What should you do if it proves difficult or impossible to make payments on time? The first thing to do, and perhaps the most frequently overlooked (at least if you believe collection agents) is to contact the creditor! An individual running into legitimate bill-paying problems can often make suitable arrangements with the creditor if the creditor knows what the problem is.

If you have only temporary difficulty in paying, several solutions are possible. If you cannot meet the current month's payment, perhaps you might be able to make double payments the following month. You should find out how much this will cost since many contracts contain late payment penalties as high as 5% of the monthly payment. If you could not meet the current payment, and could not make it up the following month, but could resume payments the following month without difficulty, an extension agreement might be the answer. The extension agreement could provide that the extra payment would be added on to the end of the loan period. Or the extension could provide that you would pay only interest or a token payment for a certain period of time after which you would again make your regular payments. Again, find out how much extra this will cost.

If you find that the payments are simply too high for your budget, the lender might be willing to rewrite the loan, extending the payments over a longer period of time and thus make your monthly payments smaller. If the real problem is too many monthly payments which, added together, come to more than you can afford to pay each month, a solution might be a consolidation loan.

A consolidation loan pays off all your creditors (while it's hard to believe, in many cases these may come to 10 to 20 different creditors -- doctors, dentists, bank charge cards, store charge cards, auto loans, etc.). You now owe only one loan which, if offered at a lower interest rate, and stretched out over a longer period of time, will provide you with a monthly payment lower than the total of your payments before.

Is a consolidation loan a good idea? Many credit counselors suggest that it is a good idea only if the borrower gets counseling along with the loan. What got you into this situation in the first place? How will it be necessary to change your spending habits so that the same situation does not happen again? In some instances, the borrower has a smaller payment with the consolidation loan, and therefore goes out and charges more goods on the paid-off credit cards, incurring more bills, and again, higher total monthly payments. In six months to a year, the borrower is again requesting a consolidation loan, this time for a higher total than the first time. The last consolidation loan was not a learning experience, and the borrower is in worse shape than before. Therefore, you should consider consolidation loans with care.

Keeping the lender informed of the reasons for inability to make payments will go a long way toward establishing your integrity and intention to pay. And while the lender in many instances will be able to offer a solution to a temporary problem, sometimes situations arise for which the lender has no easy solution, and sometimes no solution at all. At this point, you may have to look for outside help.

Many communities have debt management services which help borrowers work out bill-paying problems. These debt management services, also sometimes called debt pro-rating services, perform several functions. They may merely offer budgeting advice and this is all some borrowers need -- an outsider helping them to analyze their spending priorities and to find budget leaks which need fixing. For this advice there is no charge. But if you are behind on payments and don't have

sufficient income to meet them all, the debt management service may contact your creditors and work out a repayment plan satisfactory to the majority of creditors. For example, a creditor might agree to stop charging interest on your loan if payments of an agreed-upon amount are made. Or a creditor might agree to wait three months for payments while another more pressing creditor is paid off. All creditors might agree to substantially reduced payments, even agreeing that after a certain partial payment, the loan will be considered paid in full. Why would a creditor agree to this kind of plan? The creditor may realize that if this plan is not accepted, you may file bankruptcy, and a smaller amount, even nothing, may be received by the creditor.

In addition to setting up a repayment plan, the debt management service might actually take your paycheck, give you money for groceries, and pay your bills for you, at least until you have received enough counseling to handle your own money again. For this service, the debt management service will receive a fee, a fee set up in the contract that you sign. The debt management services may be either private profit-making companies, or non-profit groups.* Both will charge a fee if they set up a repayment schedule for you and then handle the money for you. The non-profit groups usually have a sliding scale fee based on your income, and the profit-making companies are limited by law to a fee of not more than 15% of the amount of the debt to be liquidated during the term of the contract.

The law does not permit a for-profit company to set up a contract for you unless the company is able to get cooperation from at least 51% of your creditors. This is to prevent the company from charging you for a plan that only a few creditors agree to, with the result that you continue to find yourself subject to collection calls and letters. A disadvantage of using the debt management services is that creditors are under no legal obligation to go along with a proposed repayment plan, and you might find yourself still beseiged by calls and letters from collection agents from creditors who did not accept the plan.

*The non-profit group in Michigan is Credit Counseling Centers, Inc.

Why pay someone else to pay your bills? If the debt management service does its job well, it will provide you with counseling on your money management habits, and teach you how to avoid repeating this problem at some future date. In addition, you are hiring someone to contact all your creditors and work out a suitable plan. You could perhaps do this yourself, but the debt management people know the creditors in your town, know the options that may be available, and can assure the creditor that you really mean to pay your debts this time. When they do their job well, debt management services may well be worth their fee. When they do their job poorly, however, the debt management services merely add their fees to your other debts.

Another alternative for the borrower in trouble is Chapter 13 of the Bankruptcy Act, also called the Wage Earner Plan. If you are a wage earner or self-employed person, you can petition the court to approve a plan to pay off your debts. If a plan can be put together which will pay off all or substantially all of your debts within three years, and if creditors have no serious objections, the plan will be approved by the court. You will pay an agreed upon sum to the court trustee to be paid to your creditors. Interest on loans stops as soon as the plan is filed for, and your creditors must contact the court instead of you. When paid as agreed, the plan has the force of law, and at the end of three years, your debts will be considered paid in full, even though the full amount of your debt may not have been paid. Costs for Chapter 13 plans will vary from 15 to 25% of the amount owed. In some areas Chapter 13 is not too well known, and some attorneys just don't like it because they feel that it is too time-consuming, and that straight bankruptcy is easier and more profitable.

The disadvantages of the Wage Earner Plan are its cost and the long time, three years, that it takes to complete. Its advantages include the requirement that you draw up a budget for living expenses to determine exactly how much you

can actually afford to pay (many borrowers have never done this before); the fact that creditors must stop calling you and trying to collect as long as you live up to the plan; and it doesn't have quite the same stigma as bankruptcy -- you have made an effort to pay off your bills instead of wiping them out in bankruptcy.

A final alternative for a borrower in trouble is bankruptcy. In effect, a bankrupt says: 'I have many more debts that I have assets, so take my assets and distribute them between my creditors and consider my debts paid in full.' For example: you may have $10,000 in debts, and own $1000 in assets. The assets are distributed to your creditors who must settle for 10¢ on every $1 that is owed to them. You now owe no one, and can start again financially.

The chief advantage of bankruptcy is that debts are completely wiped out -- you will owe no money (with certain exceptions as noted below) and creditors cannot continue legal action or collection efforts. In addition, certain assets are exempt from distribution to creditors, such as wearing apparel, provisions and fuel for six months, all household goods, furniture, utensils, books and appliances not exceeding $1000 in value; a homestead not exceeding $3,500; or the homestead of a family whose head of household is deceased.

However, there are some complications. For example, you will lose any secured property even if it would otherwise be exempt and bankruptcy does not wipe out taxes, child support, and alimony. Nor does it wipe out debts incurred through fraud or false pretenses (for example, you lied on the loan application or filled it out incompletely to qualify for the loan.) And if there was a co-signer on the loan, it does not wipe out the co-signer's obligation to pay the loan, only the obligation of the bankrupt to do so. So if a friend or relative had co-signed a loan for you, the friend or relative could find themselves being sued for payment of the loan if you file bankruptcy. The filing fee for bankruptcy is $50 although this is sometimes waived in hardship cases. And usually

it is recommended that you hire an attorney, and attorney's fees for bankruptcy will run between $200 and $700.

Unlike most adverse information which remains on the credit report for seven years, a bankruptcy can be reported for 14 years and even longer in some instances. Bankruptcy may limit employability in occupations where bonding is necessary, or where the employee is responsible for money matters. And, of course, the bankrupt may find it difficult to get credit. Since many bankrupts have depended on credit for their lifestyle, this can be a hardship. Some experts, however, feel that credit is the last thing they need since it would merely lead them into financial difficulties all over again. On the other hand, some lenders look at a bankrupt and decide that since bankruptcy can't be filed again for another six years, and since the bankrupt now owes nothing, they have six years to try to collect, and will lend freely.

After bankruptcy, some pitfalls await the unwary. You lost your car during bankruptcy proceedings because it was secured property. Now you need the car to get to work. You go to your old creditor and agree to pay the debt just wiped out in bankruptcy to get the car back. You have <u>reaffirmed</u> the loan. You now owe part of the debt that you just paid to have wiped out in bankruptcy. Likewise, paying a small sum, even $2, on a debt wiped out in bankruptcy could reaffirm the whole debt. In some of the worst cases, bankrupts find that soon after bankruptcy, they owe as much as they did before, sometimes the same loans, and they can't file again for six years.

Most lenders agree that bankruptcy should be there for the individual who really needs it, but feel that those individuals who should use it, those in debt because of high medical bills, unexpected unemployment, or other personal catastrophes, often do not use it because of the stigma attached to it; and that many of those who do use it do so ill-advisedly since their debt loads are often not that great, and could be worked out in less dramatic ways. However, many

people get poor advice, or do not know the alternatives, and therefore think of bankruptcy as the only solution.

A note here about collection practices is in order. Some collection agencies and agents have in the past gained a reputation for rather dubious collection tactics. These along with the threat of garnishment have driven many people to bankruptcy, just to stop the harassment. The Michigan Collection Practices Act makes many of these tactics illegal. Collection agencies, businesses that specialize in collecting on the uncollectable debts of other firms, must be licensed. And a whole range of practices are specifically outlawed. It is illegal to:

-- use or threaten to use physical violence in connection with collection of a claim.

-- use any method to harass, oppress, or abuse a person or use profane or obscene language.

-- make an inaccurate, misleading, untrue, deceptive statement or claim in a communication when it is made in connection with collecting a debt.

-- misrepresent in a communication with a debtor the legal status of a legal action being taken or threatened, or the legal rights of the creditor or debtor.

-- with certain exceptions, to communicate information relating to a debtor's indebtedness to an employer.

These are just a few of the specifically outlawed practices. A federal law also sent into effect March 20, 1978 which applies primarily to collection agencies.

Bankruptcy is a last resort when you have problems paying your bills. A wide range of alternatives exists which you should consider before bankruptcy. Most lenders will try to help you find a satisfactory solution to your problem. After all, it's in their interest; they'd like to be paid! "An ounce of prevention is worth a pound of cure," is good advice for credit users. Watch your credit purchases carefully, keep payments within your ability to repay them, and you are not likely to have to worry about bill paying problems.

Related Activities

1. In its 1977 Policy Resolutions, the Consumer Federation of America, a national consumer group that lobbies for consumer legislation in Washington, states that "Creditors should be required to choose between repossession and suit on the unpaid obligation. Deficiency judgments should be prohibited." Stage a debate or class discussion asking students to take a stand for or against this resolution. The basic arguments will probably settle down to two:

   -- Should the consumer have to continue to pay for something that he no longer has?

   -- Should the creditor be forced to lose money because of a consumer's financial difficulties?

   Ask students to do research on the subject, and/or invite a representative from a financial institution (probably a collection agent) who is familiar with deficiency judgments and a representative from a consumer protection agency or debt counseling agency to address the issue before the class. One study (An Analysis of Economic and Personal Factors Leading to Consumer Bankruptcy by Robert Dolphin, Dr., 1965, Michigan State University) indicated that 35% of bankrupts showed a deficiency judgement and that most thought they were unjust and that they should not have to pay them. Some lenders have abused the deficiency judgment by selling the repossessed goods for less than fair market value, thus resulting in a larger deficiency balance than is justified. Would legislation requiring the lender to credit the fair market value of the repossessed goods against the loan in spite of what he sells it for be more in keeping with the consumer interest than prohibiting deficiency judgments?

2. Invite a collection agent from a lending institution to your class. Ask him/her to share with the class what would make his/her job easier. What does the collection agent feel is most important for young people to know about bill

paying problems? Also, prepare the class to ask questions:

-- How often do they repossess?

-- Are attachments and garnishments often used?

-- How high is their delinquency on loans?

-- How many loans do they write off each year as bad debts?

-- Do they sell their uncollectable loans to collection agencies?

-- How do they feel about the Michigan Collection Practices Act?

3. List the names of local attorneys who handle bankruptcies. Ask students to interviev the attorneys and report their findings to the class.

-- How many bankruptcies does he/she handle per year?

-- What is the average amount owed?

-- Who suggested bankruptcy to the client?

-- Does the attorney offer the client financial counseling before agreeing to file bankruptcy?

-- Does he/she inform clients of Chapter 13?

-- How does the attorney feel this will affect his/her client's credit standing?

4. Obtain case studies of a variety of bill paying problems. Assign a student or group of students to act as a debt management company responsible for setting up some type of solution to the bill paying problems. Have them report to the class how they resolved the situation, perhaps including a budget for the debtor and including the debt management company fees.

5. Assign students to do independent research in the library and in the community on:

-- How many personal bankruptcies were filed in the past year?

-- What is a normal delinquency rate for most lenders? What is their loss rate?

-- What happens if a lender can't collect on an account?

-- How many garnishments are processed through local courts?

-- Do local lenders have repossessed cars for sale?

6. To help students become more familiar with credit terminology, assign the crossword puzzle in the Appendix (p. 67). Or, give students a list of credit terminology and have them make up a crossword puzzle.

POST-TEST

True or False:

____ 1. The credit bureau tells lenders whether they should accept or reject your loan application.

____ 2. If you miss the due date for a payment even once, it will hurt your credit report.

____ 3. If 59% of your creditors go along with a repayment plan put together by a debt management company, collection agents must stop calling you.

____ 4. A co-signer can be forced to pay on a loan if the original signer does not pay.

____ 5. Except for alimony, child support or debts for federal and state taxes, no more than 25% of weekly take-home pay can be garnisheed.

Multiple Choice:

____ 6. Credit life insurance

a. is required on all loans.
b. is an inexpensive form of insurance
c. makes your loan payments if you are disabled
d. pays off your loan if you die
e. a and d above

____ 7. If your credit card is lost or stolen

a. you will be responsible for all charges made on it before you notify the issuer of the card.
b. the most you can lose is $50 per card.
c. you maybe responsible for some of the charges made before you notified the lender.
d. you will be responsible for all charges made on the lost card.
e. b and c above

____ 8. The Fair Credit Billing Act

a. requires that billing disputes be resolved in 90 days.
b. permits you to withhold payment on the whole bill
c. requires the lender to acknowledge your letter in 30 days
d. a and b above
e. a and c above

____ 9. Sue has been unexpectedly laid off but will return to work in one month. She cannot make her $120 car payment this month. What is her best solution at this point?

a. File bankruptcy
b. Get a loan consolidation
c. Arrange a 1-month extension agreement with her creditor
d. Refuse to answer the phone because it might be a collector calling
e. File a Wage Earner Plan (Chapter 13)

____ 10. The Truth-in-Lending Law requires credit grantors to quote the annual percentage rate

a. Only if you ask for it
b. In writing when you get a loan
c. Whenever you inquire about loan cost information
d. In every credit advertisement
e. b and c above

____ 11. To determine the amount that you can afford for consumer debt each month

a. See if the lender will grant you another loan
b. Analyze your budget to determine the amount that you can realistically afford each month
c. Find out from the Bureau of Labor Statistics the national average for consumer debt payments for people at your income level
d. limit consumer debt to 30% of your take home pay
e. b and c above

____ 12. If your car is repossessed and the lender sells the car, the lender will

a. apply the sale price to your loan
b. refund to you the amount over the balance you owe if any
c. try to collect the deficiency balance, if any, from you.
d. a and b above
e. a, b and c above

____ 13. Under the Fair Credit Reporting Act

a. You can see your credit report anytime you wish at no charge
b. You can refuse to pay a bill reported to a collection agency
c. You must be told the name of the credit reporting agency if you are denied a loan because of information in your file at that agency
d. All bad information remains in your file for 16 years
e. Your employer is notified if you miss a loan payment

____ 14. The Equal Credit Opportunity Act

a. Requires lenders to grant credit to all women who apply
b. Requires lenders to grant or deny credit based on the creditworthiness of the applicant
c. Allows lenders to have different credit granting standards for divorced and widowed people than for other applicants
d. Does not permit a lender to revoke the credit card of a retiree whose payments are delinquent
e. Forbids lenders to make loans to minors

____ 15. The Michigan Collection Practices Act

a. Prohibits wage assignments
b. Permits repossessions only after loans are three month delinquent
c. Prohibits harassment as well as the use of obscene language in the collection of a debt
d. Forbids collectors to call a debtor at home
e. Requires a borrower to contact the lender if a payment is going to be late.

Matching

____ 16. Can legally charge up to 30% interest
____ 17. Requires article of value before money is lent
____ 18. You must be a member before you can borrow
____ 19. Makes mostly home mortgage loans
____ 20. Charges 18% usually on the average daily balance
____ 21. Usually includes credit life insurance at no extra charge
____ 22. Can charge up to 36%
____ 23. Usually has strict credit granting criteria
____ 24. Cannot lend more than $1500
____ 25. No set repayment date
____ 26. Written agreement withlender that changes the terms of the loan
____ 27. Amount of loan left after collateral has been sold and its price applied against loan
____ 28. Legal action which wipes out most debts and allows debtor to start over.
____ 29. Legal action which gives debtor chance to pay off debts without continued collection efforts by creditors
____ 30. Permits creditor to take part of debtors paycheck without court action
____ 31. Debtor agrees that if a payment is missed, the creditor can enter a judgment against the debtor without a court hearing
____ 32. Court order which permits creditor to take personal property not used as security on the loan
____ 33. Creditor takes back the collateral or security for a loan when debtor misses payments
____ 34. One loan which pays off all the debtors' smaller loans

a. savings and loan association
b. loan consolidation
c. bank
d. Wage Earner Plan
e. pawnshop
f. bankruptcy
g. credit union
h. extension
i. credit cards
j. wage assignment
k. finance company
l. repossession
m. security agreement
n. insurance policy
o. attachment
p. debt management company
q. garnishment
r. confession of judgment
s. deficiency balance
t. Fair Credit Billing
u. promissory note
v. truth-in-lending statement

SUPPLEMENTAL RESOURCES

FILMS:

Consumer Power: Credit. Color, 20 minutes, 1971. BFA Educational Media, 2211 Michigan Avenue, Santa Monica, Ca. 90404. $275. (F24)

A well-paced film with comments from a psychologist, Ralph Nader, a bank executive, collection agents, car dealers, businessmen, and people on the street about how they feel about credit, whether they use it, and the effect that it has on the economy. Examines why some families believe in living on credit and others consider it an evil to be used only in dire emergencies. Useful in helping students explore how they feel about credit and how it should be used in a personal budget.

The Money Tree. Color, 20 minutes, 1971. Hanna-Barbera Productions, Educational Division, 3400 Cahuenga Blvd., Hollywood, Ca. 90068. $285. (F4)

A very emotional film that dramatizes the trouble young people can get into when they do not understand how to handle money. An excellent film to begin a discussion on marriage and money, credit, contracts, credit ratings, etc. Class discussion afterward can bring out the need to plan spending.

Your Credit is Good. Color, 15 minutes, 1972. Journal Films, Inc., 909 W. Diversey Parkway, Chicago, Ill. 60614. $175. (F50)

A very good film which discusses credit, its cost, its availability and the nature of the credit contract by way of two examples -- a young man who has purchased a used car, and a young woman who has signed a contract at a health spa. Its a realistic protrayal of the way credit is sold and has quite an impact. Points out clearly the APR and the finance charge in the credit contract. And the closing scene can lead the class into a discussion of the holder-in-due course doctrine.

MEDIA KITS:

Buying on the Installment Plan. Filmstrip and cassette, 1976. Guidance Associates, 757 Third Avenue, New York, New York 10017. $26.00. (M260)

Useful filmstrip that explains some of the disclosures in a credit contract and the terminology involved. Teacher's guide includes suggestions for related activities. Includes sample contract and security agreement.

Consumer and Credit. Filmstrip and 2 cassettes. Current Affairs, 24 Danbury Road, Wilton, Connecticut 06897. $30.00. (M110)

Good filmstrip which summarizes this entire module. Good as introduction or as review. Includes second cassette with interviews with experienced credit grantors.

"Credit and Contracts." Filmstrip and cassette, 1971. One part of a multi-media kit Consumer Education 1 and 2. Hanna-Barbera Productions, Educational Division, 3400 Cahuenga Blvd., Hollywood, Ca. 90068. $130 for the kit. (M10)

This filmstrip is part of a set designed to be used with The Money Tree. Focusing on the credit contract, it points out the necessity of reading before signing. Explains sources of credit, costs, etc. Emphasizes shopping for credit.

Interact I: Budgeting and Credit. 2 filmstrips and cassettes, 1974. Pitman Publishing, 6 East 43rd Street, New York, New York 10017. $69.50. (M162)

"Will it be cash or charge?" Filmstrip dramatizes the problems that a couple gets into through misuse of credit. Ends with a couple trying to decide whether or not they should finance a car and if so where.

"Money Management." Filmstrip and cassette, 1971. One part of multi-media kit Consumer Education 1 and 2. Hanna-Barbera Productions, Educational Division, 3400 Cahuenga Blvd., Hollywood California 90068. $130 for the kit. (M10)

Again this filmstrip is part of the set designed to be used with The Money Tree. It is actually an introduction to budgeting, but talks about wants versus needs and the role of advertising in creating wants and needs. Helpful in clarifying for students why people overspend for psychological wants.

Poor Credit Rating. Cassette with worksheets, 1976. Relevant Productions, P. O. Box 68, Indian Rocks Beach, Florida 33535. $9.95. (M231)

Cassette tape explains in detail a consumer's rights under the Fair Credit Reporting Act.

BOOKS:

Consumer Credit by Elsie Fetterman and Ruth Jordan. Charles A. Bennett Co., Inc., Peoria, Ill. 61614.

A high school text on the subject of consumer credit. Very well done; accurate, detailed, in-depth treatment. A must for your classroom library, and recommended reading for background on consumer credit. Student Guide and Teacher Guide also available. Student Guide consists primarily of written exercises to test comprehension of textbook material.

Learning Activity Packages. "When to Use Credit" by Dianne MacDonald, and "Credit Cards" by Sally R. Campbell. Unigraph Products, P. O. Box 24287, Seattle, Washington 98124. $12.50 (per title) for one package with Teacher's Guide (you have permission to duplicate), or $12.50 for one dozen pre-printed booklets and Teacher's Guide.

Can be used as a completely self-contained unit through which the student progresses at an individual pace, or as a classroom supplement. Contains copies of credit forms and activities and problems for students.

Sylvia Porter's Money Book by Sylvia Porter. Doubleday and Company, Inc., Garden City, N. Y. 1975, pp. 78 to 138. $5.95 in paperback.

Very thorough analysis of credit, how to use it, what it costs, problems that arise. Highly recommended reading. A must for your classroom library.

ARTICLES:

An Analysis of Economic and Personal Factors Leading to Consumer Bankruptcy by Robert Dolphin, Jr. Occasional Paper No. 15, Bureau of Business and Economic Research, Graduate School of Business Administration, Michigan State University, East Lansing, Michigan 48824, 1965.

An interesting study which explores who goes bankrupt and why. Might be assigned as extra credit reading to an ambitious student.

Credit Card Use in the United States by Lewis Mandell. University of Michigan, Ann Arbor, Michigan, 1972.

Results of a survey by the Survey Research Center at U of M detailing what age and income groups use credit cards, how much they charge, what they buy with credit cards, and how they feel about credit cards. Helpful as background in analyzing credit card advertising.

"Peeling Away Excess Credit Cards," by Jerry Edgerton, Money, December, 1976. pp. 40 to 42.

Good article on credit cards, the different types, which ones charge and for what. Answers the question: "How many cards do you really need? And which ones?"

PAMPHLETS AVAILABLE FREE IN QUANTITY:

"Fair Credit Billing Act" "FTC Buyer's Guide No. 7 -- Fair Credit Reporting Act" "Equal Credit Opportunity Act"	Federal Trade Commission Legal and Public Records Room 130 Washington, D. C. 20580
"Michigan Credit Buyer's Guide"	Department of Attorney General Consumer Protection Division 525 W. Ottawa Lansing, Michigan 48913
"How to Shop for Credit:	Michigan Department of Commerce Consumer Affairs Division Financial Institutions Bureau 3rd Floor, Law Building Lansing, Michigan 48913
"What to Do When You Can't Pay Your Bills"	Michigan Consumers Council 414 Hollister Building Lansing, Michigan 48933
"Federal Wage Garnishment Law"	U. S. Department of Labor Employment Standards Administration Wage and Hour Division Constitution Avenue and 14th Street, N.W. Washington, D. C. 20210
"An Alternative to Bankruptcy" CCI-30 "Co-Signing: Is It a Friendly Thing To Do?" CCI-33 "Credit Bureaus" CCI-21 "How to Go Broke on Plenty" CCI-29 "Truth-in-Lending: What It Means to You" CCI-16	Available free from credit unions in your area or you can buy from: Everybody's Money Box 431 Madison, Wisconsin 53701 Minimum order: 100, $5.40 per 100

APPENDIX

"FIGURING INTEREST"

The Truth in Lending law requires that lenders disclose the interest rate being charged as an annual percentage rate. This was deemed necessary because lenders were quoting different types of interest rates, leading to consumer confusion and an inability to shop for the lowest cost loan. The law allows the lender to compute the interest in any manner, but when quoted to the customer, it must be quoted in the Annual Percentage Rate.

What's the difference between the add-on, discount, and simple interest methods of figuring interest? With the add-on method, the borrower is charged interest on the entire original amount of the loan for the entire repayment period even though under most installment loan plans the borrower has use of the entire original amount for only the first month. For example, you borrow $3,000 for 3 years at an add-on rate of 6%. Finding the total interest is easy:

multiply $3,000 x 6% x 3 years

3,000 x .06 = $180 x 3 = $540.

The sum of $540 is "added-on" to the amount you are borrowing and you must repay $3540.

The misleading part here is the 6%. Six percent is not really the annual rate being charged. Why? Because at the end of the first month, you must pay back $98.33 which means you no longer have the use of the full $3,000 but only about $2,900. But you were charged 6% on the whole $3,000 as if you would have it for the entire 3 years. I f you were charged $540 for $3,000 for 3 years and you paid the entire $3,000 back at the end of the 3 years, then the add-on rate and the annual percentage rate would be the same - 6%. If paid back in 36 monthly installments, however, the real annual percentage rate would be 11.08% (APR).

Under the discount method the interest is figured the same way as add-on but instead of being added to the loan it is substracted from it. In order to actually get $3,000 in cash as above, the borrower would have to sign a contract for $3,658.53. The interest is figured on the entire $3658.53 instead of $3,000. Again $3,658.53 x 6% = $219.51 x 3 years = $658.53 which is subtracted to get the $3,000 the borrower wants (at a real annual percentage rate of 13.38%).

Notice that at 6% add-on the interest charge came to $540 but at a 6% discount rate the interest is $658.53. Confused? Most credit buyers were before 1969. At a true annual percentage rate of 6%, the cost of the same loan would be $285.57.

Using the real annual percentage rate, the finance charge is arrived at by using what is known as the simple interest method of computation, also known as the declining balance method interest is figured on the declining loan balance as payments are made. While simple interest is the most advantageous to the consumer, it is not the easiest to compute (in spite of its name). To arrive at the true annual percentage rate and the total finance charge, lenders use a variety of charts and tables at their disposal. A formula is given in some texts which is neither easy to compute nor exactly accurate (it will come out lower than the real charge). It is my personal feeling that it is more important for the borrower to know enough to shop for the annual percentage rate and finance charge than to be able to figure it. For those who insist, however, the formulas are as follows: $i = \frac{rp\ (n + 1)}{2 \times m}$ $r = \frac{2\ mi}{p\ (n + 1)}$

r = the annual percentage rate
m = the number of payment periods in one year
i = the cost of borrowing (finance charge)
p = the amount borrowed
n = total payments to be made

How does simple interest work? The borrower is charged interest only on the declining balance for the exact number of days between payments.

For example, you get a loan on December 27 for $3,000 and you make the first payment of $91.26 on January 27. There have been 31 days between payments and the unpaid balance is $3,000. The annual rate of 6% (.06) is divided by 365 days

to get the daily rate which is .0001644. Interest for the first payment equals $3,000 x .0001644 x 31 days = $15.28. The interest of $15.28 is subtracted from the payment of $91.26 and the resulting $75.98 is subtracted from the principal of $3000. You now owe $2924.02 ($3000 - $75.98). At your next payment on February 27, you will be charged 31 days interest on the remaining balance of $2924.02 (instead of $3000). Thus $2924.02 x .0001644 x 31 days equals interest of $14.98 -- your interest goes down each month because you are charged interest only on the balance you still owe. And under this method of computing interest, there are no pre-payment penalties. You can pay the loan off early and the earlier you do so the more interest you will save. Even making payments a few days early each month can save you interest.

As indicated earlier, a lender can legally compute the loan interest by the add-on method and then quote to you the borrower the annual percentage rate as if the interest had been figured under the simple interest method. (Again the lender has charts to simplify this process.) If the lender computes the interest by the add-on method you sign a total contract for the loan plus the interest ($3540 in our example above) and make monthly payments of $98.33 which are not divided between interest and principal, but merely subtracted from the total contract amount. If you pay the loan off early, interest is usually refunded to you by the Rule of 78's which tends to penalize those who pay the loan off early.

Under the simple interest method of computing interest, you sign a contract for $3000 at 6% for 3 years and if you pay as agreed, in 36 equal monthly payments on thedue date indicated, your interest will not come to more than $285.57.

More lenders are turning to the simple interest method to compute their loans because with computer technology, it is relatively easy to do, and

payoffs are easier to figure than they were under the Rule of 78's. It benefits the borrower who pays interest only on the money he/she is still using. In addition, under this method making extra payments or making payments early saves the borrower money. Note the attached amortization schedule for our $3000 loan: over half the interest is earned by the lender by the 10th month of the loan, the months when the borrower has use of the most money. Thus early payments and extra payments would save the most interest in the early months of the loan. In fact, making double payments the second and third months would save $32.09 in interest over the course of the loan.

Rule of 78's. When lenders use the add-on method to compute their loans, the contract usually states that the amount of refund due the borrower in case of pre-payment of the loan will be figured according to the Rule of 78's. The rule tries to determine roughly how much of the interest the lender is entitled to. In a twelve month loan, the lender adds up all the numbers for the months of the loan's duration (1 + 2 + 3 + 4 + 5 . . . 12 = 78) which for one year comes to the 78 that gives the rule its name (a 2 year loan would come to 209 digits, a 36 month loan 784). If a loan was paid off at the end of the first month, the lender would be entitled to keep 12/78 of the finance charge (or to put it the other way, you would be entitled to a refund of 66/78). If paid off the second month, the lender would get 23/78 (12 + 11) of the finance charge, and the third month 33/78 (12 + 11 + 10).

The borrower pays more interest if he/she repays the loan early under the rule of 78's than if the loan were computed by the simple interest or declining balance method. On our $3000, 6% loan, the actual dollar difference is small, about $2.50. However, the larger the loan, and the higher the interest rate, the greater the difference. On a $3000, 12% loan, the difference is $9 to $10 during most of the course of the loan. On a $12,000, 12 year, 12% mobile home loan, the penalty could easily come to $100.

But this assumes that the loan is paid off in one lump sum at a given time. But what about our borrower who made double payments the second and third months? Under the simple interest method, $32.09 was saved. But under the rule of 78's, the loan would not be paid off until the 34th month and the refund due, the interest saved, at that point would be only $1.28.

Attached for your use is a sheet of the percentages lenders use to work out refunds under the Rule of 78's.

Related Activities (Computation Skills)

1. John and Mary signed a loan contract for $5,900, of which $900 was interest and $5,000 the cash they actually received. The loan was to be repaid in 36 monthly installments. They paid the loan off in 11 months instead of 36. Using the Rule of 78's refund table, how much interest will they actually pay?
2. With a calculator have the student figure the interest and principal each month on a given loan

   13% -- $1,000 -- 12 monthly payments of $89.31
3. Ask students to amortize a $3,000, 12% APR loan, with 36 monthly payments of $99.64 (total interest = 586.89), but making additional $10 payments each month. How much interest will the $10 monthly payment save them if the loan is set up on the simple interest (declining balance) method of computing interest?

AMORTIZATION OF $3,000 LOANS AT 6% AND 12% APR

PAYMENT NUMBER	NUMBER OF DAYS BETWEEN PAYMENTS	$3,000 AT 6% FOR 3 YEARS; PAYMENT $91.26			$3,000 AT 6% FOR 3 YEARS; DOUBLE PAYMENTS THE SECOND AND THIRD MONTHS		$3,000 AT 12% FOR 3 YEARS; PAYMENTS $99.64		
		PRINCIPAL	INTEREST	AMOUNT OF INTEREST EARNED BY LENDER UNDER RULE OF 78'S	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	AMOUNT OF INTEREST EARNED BY LENDER UNDER RULE OF 78'S
		$3,000.00			$3,000.00		$3,000.00		
1	31	75.97	$ 15.29		75.97	$ 15.29	69.06	$ 30.58	
		2,924.03	15.29	$ 15.44	$2,924.03	15.29	2,930.94	30.58	$ 31.72
2	31	76.36	14.90		167.72	14.90	69.77	29.87	
		2,847.67	30.19	30.43	2,756.41	30.19	2,861.17	60.45	62.57
3	28	78.15	13.11		169.83	12.69	73.30	26.34	
		2,769.52	43.30	45.20	2,586.58	42.88	2,787.87	86.79	92.53
4	31	77.15	14.11		78.08	13.18	71.23	28.41	
		2,692.37	57.41	59.15	2,508.50	56.06	2,716.64	115.20	121.61
5	30	77.98	13.28		78.89	12.37	72.85	26.79	
		2,614.39	70.69	72.88	2,429.61	68.43	2,643.79	141.99	149.81
6	31	77.93	13.33		78.88	12.38	72.69	26.95	
		2,536.46	84.02	86.15	2,350.73	80.81	2,571.10	168.94	177.12
7	30	78.75	12.51		79.67	11.59	74.28	25.36	
		2,457.71	96.53	99.06	2,271.06	92.40	2,496.82	194.30	203.56
8	31	78.73	12.53		79.69	11.57	74.19	25.45	
		2,378.98	109.06	111.44	2,191.37	103.97	2,422.63	219.75	229.12
9	31	79.14	12.12		80.09	11.17	74.95	24.69	
		2,299.84	121.18	123.43	2,111.28	115.14	2,347.68	244.44	253.79
10	30	79.92	11.34		80.85	10.41	76.48	23.16	
		2,219.92	132.52	135.02	2,030.43	125.55	2,271.20	267.60	277.58
11	31	79.95	11.31		80.91	10.35	76.49	23.15	
		2,139.97	143.83	146.16	1,949.52	135.90	2,194.71	290.75	300.49
12	30	80.71	10.55		81.64	9.62	77.99	21.65	
		2,059.26	154.38	156.86	1,867.88	145.52	2,116.72	312.40	322.53
13	31	80.77	10.49		81.74	9.52	78.07	21.57	
		1,978.49	164.87	167.17	1,786.14	155.04	2,038.65	333.97	343.67
14	31	81.18	10.08		82.16	9.10	78.86	20.78	
		1,897.31	174.95	177.01	1,703.98	164.14	1,959.79	354.75	363.94
15	28	82.53	8.73		83.42	7.84	81.60	18.04	
		1,824.78	183.68	186.46	1,620.56	171.98	1,878.19	372.79	383.33
16	31	82.01	9.25		83.00	8.26	80.50	19.14	
		1,732.77	192.93	195.45	1,537.56	180.24	1,797.69	391.93	401.83
17	30	82.71	8.55		83.68	7.58	81.91	17.73	

PAYMENT NUMBER	NUMBER OF DAYS BETWEEN PAYMENTS	$3,000 AT 6% FOR 3 YEARS; PAYMENT $91.26			$3,000 AT 6% FOR 3 YEARS; DOUBLE PAYMENTS THE SECOND AND THIRD MONTHS		$3,000 AT 12% FOR 3 YEARS; PAYMENTS $99.64		
		PRINCIPAL	INTEREST	AMOUNT OF INTEREST EARNED BY LENDER UNDER RULE OF 78'S	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	AMOUNT OF INTEREST EARNED BY LENDER UNDER RULE OF 78'S
18	31	82.85	8.41		83.85	7.41	82.15	17.49	
		1,567.21	209.89	212.15	1,370.03	195.23	1,633.63	427.15	436.20
19	30	83.53	7.73		84.50	6.76	83.53	16.11	
		1,483.68	217.62	219.89	1,285.58	201.99	1,550.10	443.26	452.06
20	31	83.70	7.56		84.71	6.55	83.84	15.80	
		1,399.98	225.18	227.17	1,200.82	208.54	1,466.26	459.06	467.04
21	31	84.13	7.13		85.14	6.12	84.70	14.94	
		1,315.85	232.31	234.02	1,115.68	214.66	1,381.56	474.00	481.14
22	30	84.77	6.49		85.76	5.50	86.01	13.63	
		1,231.08	238.80	240.44	1,029.92	220.16	1,295.55	487.63	494.36
23	31	84.99	6.27		86.01	5.25	86.44	13.20	
		1,146.09	245.07	246.47	943.47	225.41	1,209.11	500.83	506.70
24	30	85.61	5.65		86.60	4.66	87.71	11.93	
		1,060.48	250.72	252.03	857.31	230.07	1,121.40	518.16	518.16
25	31	85.86	5.40		86.59	4.67	88.21	11.43	
		974.62	256.12	257.17	770.72	234.74	1,033.19	524.19	528.73
26	31	86.29	4.97		87.33	3.93	89.11	10.53	
		888.33	261.09	261.88	683.39	238.67	944.08	534.72	538.42
27	28	87.17	4.09		88.11	3.15	90.95	8.69	
		801.16	265.18	266.16	595.28	241.82	853.13	543.41	547.24
28	31	87.18	4.08		88.23	3.03	90.95	8.69	
		713.98	269.26	270.02	507.05	244.85	762.18	552.10	555.17
29	30	87.74	3.52		88.76	2.50	92.12	7.52	
		626.24	272.78	273.47	418.29	247.35	670.06	559.62	562.22
30	31	88.07	3.19		89.13	2.13	92.81	6.83	
		538.17	275.97	276.47	329.16	249.48	577.25	566.45	568.38
31	30	88.61	2.65		89.64	1.62	93.95	5.69	
		449.56	278.62	279.04	239.52	251.10	483.30	572.14	572.08
32	31	88.97	2.29		90.04	1.22	94.71	4.93	
		360.59	280.91	281.18	149.48	252.32	388.59	577.07	578.08
33	31	89.42	1.84		90.50	.76	95.68	3.96	
		271.17	282.75	282.89	58.98	253.08	292.91	581.03	581.60
34	30	89.92	1.34		58.98	.29	96.75	2.89	
		181.25	284.09	284.18		253.37	196.16	583.92	584.25
35	31	90.34	.92				97.64	2.00	
		90.91	285.01	285.03			98.52	585.92	586.01
36	30	90.81	.45				98.52	.97	
TOTAL INTEREST PAID/END OF LOAN			285.46	285.46		253.37		586.89	586.89

"RULE OF 78" REFUND TABLE

Instructions

1. Select original term in "Term of Loan" column.
2. Select instalments matured in "Number of Instalments Matured" column.
3. Where the lines intersect will be found the percentage of the full financing charge to be rebated.

Term of Loan	Number of Instalments Matured											
	1	2	3	4	5	6	7	8	9	10	11	12
1	0	0	0	0	0	0	0	0	0	0	0	0
2	33.33	0	0	0	0	0	0	0	0	0	0	0
3	50.00	16.67	0	0	0	0	0	0	0	0	0	0
4	60.00	30.00	10.00	0	0	0	0	0	0	0	0	0
5	66.67	40.00	20.00	6.67	0	0	0	0	0	0	0	0
6	71.43	47.62	28.57	14.29	4.76	0	0	0	0	0	0	0
7	75.00	53.57	35.71	21.43	10.71	3.57	0	0	0	0	0	0
8	77.78	58.33	41.67	27.78	16.67	8.33	2.78	0	0	0	0	0
9	80.00	62.22	46.67	33.33	22.22	13.33	6.67	2.22	0	0	0	0
10	81.82	65.45	50.91	38.18	27.27	18.18	10.91	5.45	1.82	0	0	0
11	83.33	68.18	54.55	42.42	31.82	22.73	15.15	9.09	4.55	1.52	0	0
12	84.62	70.51	57.69	46.15	35.90	26.92	19.23	12.82	7.69	3.85	1.28	0
13	85.71	72.53	60.44	49.45	39.56	30.77	23.08	16.48	10.99	6.59	3.30	1.10
14	86.67	74.29	62.86	52.38	42.86	34.29	26.67	20.00	14.29	9.52	5.71	2.86
15	87.50	75.83	65.00	55.00	45.83	37.50	30.00	23.33	17.50	12.50	8.33	5.00
16	88.24	77.21	66.91	57.35	48.53	40.44	33.09	26.47	20.59	15.44	11.03	7.35
17	88.89	78.43	68.63	59.48	50.98	43.14	35.95	29.41	23.53	18.30	13.73	9.80
18	89.47	79.53	70.18	61.40	53.22	45.61	38.60	32.16	26.32	21.05	16.37	12.28
19	90.00	80.53	71.58	63.16	55.26	47.89	41.05	34.74	28.95	23.68	18.95	14.74
20	90.48	81.43	72.86	64.76	57.14	50.00	43.33	37.14	31.43	26.19	21.43	17.14
21	90.91	82.25	74.03	66.23	58.87	51.95	45.45	39.39	33.77	28.57	23.81	19.48
22	91.30	83.00	75.10	67.59	60.47	53.75	47.43	41.50	35.97	30.83	26.09	21.74
23	91.67	83.70	76.09	68.84	61.96	55.43	49.28	43.48	38.04	32.97	28.26	23.91
24	92.00	84.33	77.00	70.00	63.33	57.00	51.00	45.33	40.00	35.00	30.33	26.00
25	92.31	84.92	77.85	71.08	64.62	58.46	52.62	47.08	41.85	36.92	32.31	28.00
26	92.59	85.47	78.63	72.08	65.81	59.83	54.13	48.72	43.59	38.75	34.19	29.91
27	92.86	85.98	79.37	73.02	66.93	61.11	55.56	50.26	45.24	40.48	35.98	31.75
28	93.10	86.45	80.05	73.89	67.98	62.32	56.90	51.72	46.80	42.12	37.68	33.50
29	93.33	86.90	80.69	74.71	68.97	63.45	58.16	53.10	48.28	43.68	39.31	35.17
30	93.55	87.31	81.29	75.48	69.89	64.52	59.35	54.41	49.68	45.16	40.86	36.77
31	93.75	87.70	81.85	76.21	70.77	65.52	60.48	55.65	51.01	46.57	42.34	38.31
32	93.94	88.07	82.39	76.89	71.59	66.48	61.55	56.82	52.27	47.92	43.75	39.77
33	94.12	88.41	82.89	77.54	72.37	67.38	62.57	57.93	53.48	49.20	45.10	41.18
34	94.29	88.74	83.36	78.15	73.11	68.24	63.53	58.99	54.62	50.42	46.39	42.52
35	94.44	89.05	83.81	78.73	73.81	69.05	64.44	60.00	55.71	51.59	47.62	43.81
36	94.59	89.34	84.23	79.28	74.47	69.82	65.32	60.96	56.76	52.70	48.80	45.05

Term of Loan	Number of Instalments Matured											
	13	14	15	16	17	18	19	20	21	22	23	24
13	0	0	0	0	0	0	0	0	0	0	0	0
14	.95	0	0	0	0	0	0	0	0	0	0	0
15	2.50	.83	0	0	0	0	0	0	0	0	0	0
16	4.41	2.21	.74	0	0	0	0	0	0	0	0	0
17	6.54	3.92	1.96	.65	0	0	0	0	0	0	0	0
18	8.77	5.85	3.51	1.75	.58	0	0	0	0	0	0	0
19	11.05	7.89	5.26	3.16	1.58	.53	0	0	0	0	0	0
20	13.33	10.00	7.14	4.76	2.86	1.43	.48	0	0	0	0	0
21	15.58	12.12	9.09	6.49	4.33	2.60	1.30	.43	0	0	0	0
22	17.79	14.23	11.07	8.30	5.93	3.95	2.37	1.19	.40	0	0	0
23	19.93	16.30	13.04	10.14	7.61	5.43	3.62	2.17	1.09	.36	0	0
24	22.00	18.33	15.00	12.00	9.33	7.00	5.00	3.33	2.00	1.00	.33	0
25	24.00	20.31	16.92	13.85	11.08	8.62	6.46	4.62	3.08	1.85	.92	.31
26	25.93	22.22	18.80	15.67	12.82	10.26	7.98	5.98	4.27	2.85	1.71	.85
27	27.78	24.07	20.63	17.46	14.55	11.90	9.52	7.41	5.56	3.97	2.65	1.59
28	29.56	25.86	22.41	19.21	16.26	13.55	11.08	8.87	6.90	5.17	3.69	2.46
29	31.26	27.59	24.14	20.92	17.93	15.17	12.64	10.34	8.28	6.44	4.83	3.45
30	32.90	29.25	25.81	22.58	19.57	16.77	14.19	11.83	9.68	7.74	6.02	4.52
31	34.43	30.85	27.42	24.19	21.17	18.35	15.73	13.31	11.09	9.07	7.26	5.65
32	35.98	32.39	28.98	25.76	22.73	19.89	17.23	14.77	12.50	10.42	8.52	6.82
33	37.43	33.87	30.48	27.27	24.24	21.39	18.72	16.22	13.90	11.76	9.80	8.02
34	38.82	35.29	31.93	28.74	25.71	22.86	20.17	17.65	15.29	13.11	11.09	9.24
35	40.16	36.67	33.33	30.16	27.14	24.29	21.59	19.05	16.67	14.44	12.38	10.48
36	41.44	37.99	34.68	31.53	28.53	25.68	22.97	20.42	18.02	15.77	13.66	11.71

Term of Loan	Number of Instalments Matured										
	25	26	27	28	29	30	31	32	33	34	35
25	0	0	0	0	0	0	0	0	0	0	0
26	.28	0	0	0	0	0	0	0	0	0	0
27	.79	.26	0	0	0	0	0	0	0	0	0
28	1.48	.74	.25	0	0	0	0	0	0	0	0
29	2.30	1.38	.69	.23	0	0	0	0	0	0	0
30	3.23	2.15	1.29	.65	.22	0	0	0	0	0	0
31	4.23	3.02	2.02	1.21	.60	.20	0	0	0	0	0
32	5.30	3.98	2.84	1.89	1.14	.57	.19	0	0	0	0
33	6.42	4.99	3.74	2.67	1.78	1.07	.53	.18	0	0	0
34	7.56	6.05	4.71	3.53	2.52	1.68	1.01	.50	.17	0	0
35	8.73	7.14	5.71	4.44	3.33	2.38	1.59	.95	.48	.16	0
36	9.91	8.26	6.76	5.41	4.20	3.15	2.25	1.50	.90	.45	.15

LOAN PAYMENT CHART BASED ON ANNUAL PERCENTAGE RATE

Amount of Loan	True Annual Interest Rate	12 Months		18 months		24 months		36 months		48 months	
		Cost of Loan	Monthly Payment	Cost of Loan	Monthly Payment	Cost of Loan	Monthly Payment	Cost of Loan	Monthly Payment	Cost of Loan	Monthly Payment
$1,000	10%	$ 55.00	$ 87.92	$ 81.00	$ 60.06	$107.50	$ 46.15	$161.60	$ 32.27	$217.28	$ 25.36
	12	66.20	88.85	97.70	60.98	129.80	47.08	195.70	33.21	263.84	26.33
	14	77.40	89.78	114.50	61.92	152.30	48.01	230.40	34.18	311.36	27.32
	16	88.80	90.73	131.40	62.86	175.10	48.96	265.70	35.16	360.32	28.34
2,000	10	110.00	175.83	162.00	120.11	215.00	92.29	323.20	64.53	434.56	50.72
	12	132.40	177.70	195.40	121.97	259.60	94.15	391.40	66.43	527.68	52.66
	14	154.80	179.57	229.00	123.83	304.60	96.03	460.80	68.36	623.20	54.65
	16	177.60	181.47	262.80	125.71	350.20	97.93	531.40	70.32	720.64	56.68
3,000	10	165.00	263.75	243.00	180.17	322.50	138.44	484.80	96.80	651.84	76.08
	12	198.60	266.55	293.10	182.95	389.40	141.23	587.10	99.64	792.00	79.00
	14	232.20	269.35	343.50	185.75	456.90	144.04	69.20	102.53	934.56	81.97
	16	266.40	272.20	394.20	188.57	525.30	146.89	797.10	105.48	1080.96	85.02
4,000	10	220.00	351.67	324.00	240.22	430.00	184.58	646.40	129.07	869.60	101.45
	12	264.80	355.40	390.80	243.93	519.20	188.30	782.80	132.86	1055.84	105.33
	14	309.60	359.13	458.00	247.67	609.20	192.05	921.60	136.71	1246.40	109.30
	16	355.20	362.93	525.60	251.42	700.40	195.85	1062.80	140.63	1441.28	113.36

COMPARING AUTO LOAN COSTS

	SOURCE "A"		SOURCE "B"		SOURCE "C"	
	36 MTHS	48 MTHS	36 MTHS	48 MTHS	36 MTHS	48 MTHS
CASH PRICE OF CAR						
MINIMUM DOWN PAYMENT REQUIRED						
UNPAID BALANCE OF CASH PRICE						
CREDIT LIFE INSURANCE						
CREDIT DISABILITY INSURANCE						
AMOUNT FINANCED						
FINANCE CHARGE						
PROCESSING FEE						
TOTAL OF PAYMENTS						
MONTHLY PAYMENTS						
ANNUAL PERCENTAGE RATE						

PERSONAL AND CREDIT INFORMATION

To be completed by applicants and comakers for Revolving Credit and Line of Credit Plans and comakers for Closed End Loans. Use also for periodic update of information.

69

(PLEASE PRINT OR TYPE) ACCOUNT NO._____ DATE / /

FIRST NAME	INITIAL	LAST NAME	BIRTH DATE / /

RESIDENCE ADDRESS	CITY	COUNTY	STATE	ZIP COD

TELEPHONE NO.	SOCIAL SECURITY NUMBER	NUMBER OF DEPENDENTS (EXCLUDE SELF)	THIS INFORMATION NEED NOT BE GIVEN FOR LINE OF CREDIT ▶	☐ UNMARRIED ☐ MARRIED ☐ SEPARATED

LAST PREVIOUS ADDRESS	CITY	COUNTY	STATE	YRS. THERE

DEPARTMENT	DIVISION	DATE EMPLOYED	CLASS

CERTIFIED	PROVISIONAL	TEMPORARY	PROBATION

INCOME GROSS $ INCOME NET $	BI-WEEKLY ☐ MONTHLY ☐	SUPERVISOR NAME	WORK STATION

PREVIOUS EMPLOYER	ADDRESS	TELEPHONE AT WORK	DRIVER'S LICENSE NO.

OTHER INCOME (EXCLUDE ALIMONY, CHILD SUPPORT AND MAINTENANCE PAYMENTS) $	SOURCE

1. NAME OF NEAREST RELATIVE NOT LIVING WITH YOU (NOT SPOUSE)	COMPLETE ADDRESS	RELATIONSHIP

2. OTHER REFERENCE	COMPLETE ADDRESS

YOU ARE NOT REQUIRED TO DISCLOSE INCOME FROM ALIMONY, CHILD SUPPORT OR MAINTENANCE BUT IF YOU WANT IT CONSIDERED IN CONNECTION WITH THIS APPLICATION COMPLETE THE FOLLOWING:

$	PAYOR

☐ ALIMONY ☐ CHILD SUPPORT ☐ MAINTENANCE

HOW LONG HAVE PAYMENTS BEEN MADE

ARE PAYMENTS UP TO DATE ☐ YES ☐ NO

IF YOU ARE RELYING ON YOUR SPOUSE'S INCOME AS A BASIS FOR REPAYMENT, COMPLETE THE FOLLOWING:

SPOUSE'S NAME

EMPLOYED BY

DATE EMPLOYED	MONTHLY INCOME $

STATEMENT OF TOTAL INDEBTEDNESS AND LIABILITIES

(THIS SECTION MUST BE ANSWERED)

OWED TO	ADDRESS	SECURITY	BALANCE OWING	MO. PYMTS.
MTGE. OR RENT				
AUTO LOAN				
CREDIT UNION				
CREDIT CARD				
CREDIT CARD				
CREDIT CARD				
CHILD SUPPORT, ALIMONY OR MAINTENANCE				
OTHER				
ATTACH ADDITIONAL LISTING IF NECESSARY				

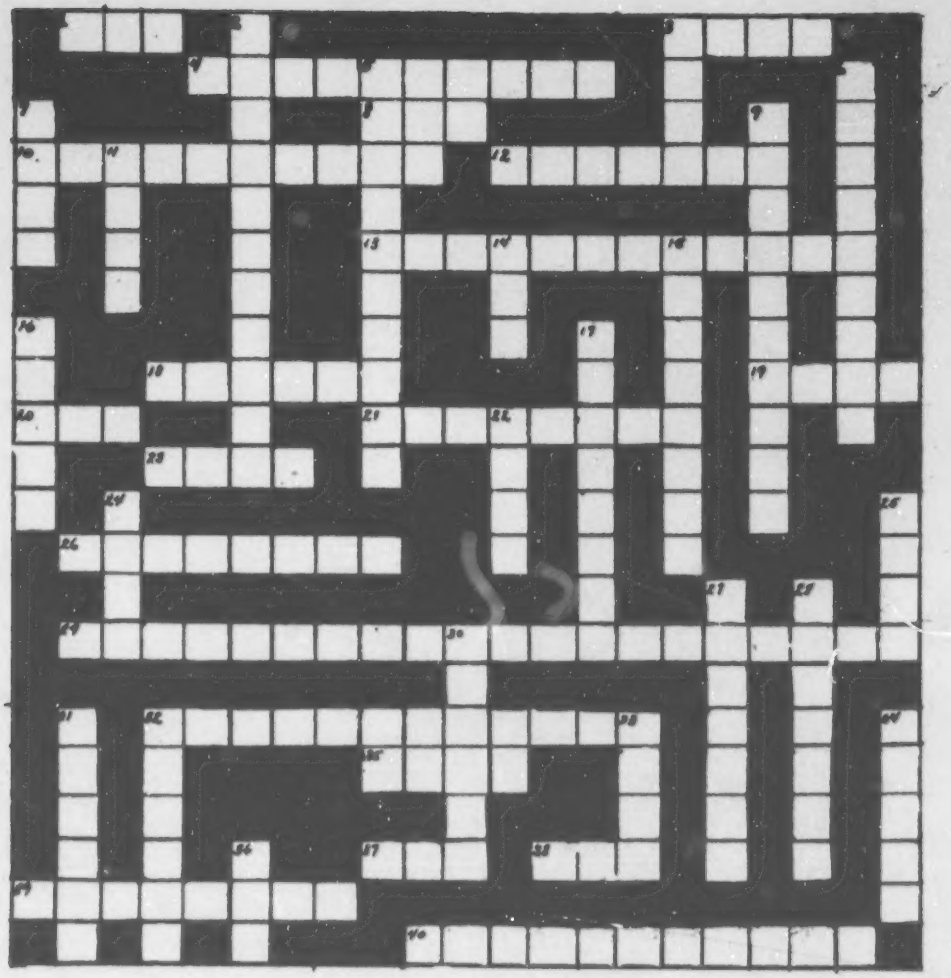
HOME: ☐ OWN ☐ RENT	YEARS THERE	ESTIMATED MKT. VALUE $	MAKE OF AUTO 1	YEAR	MAKE OF AUTO 2	YEAR

ARE YOU A COMAKER ON ANY OTHER LOANS? YES ☐ NO ☐
HOW MUCH? FOR WHOM?

HAVE YOU EVER TAKEN BANKRUPTCY? YES ☐ NO ☐
HAVE YOU ANY LEGAL PROCEEDINGS PENDING AGAINST YOU? YES ☐ NO ☐

Sign Below—I present this information truly and correctly stated to the best of my knowledge and for the purpose of obtaining credit from the . I have no other debts.

CONSUMER CREDIT
CROSSWORD PUZZLE



CONSUMER CREDIT CROSSWORD PUZZLE

ACROSS:

1. Banks can charge up to $15 for a processing _____.
3. To loan money
4. One who loans money on articles of value.
8. Abbreviation for annual percentage rate
10. Agreement which allows lender to take earnings without a court hearing is a wage _____.
12. To obtain credit for a purchase
13. Taking back goods from purchaser who fails to make payments
18. Using someone else's money
19. Abbreviation for Equal Credit Opportunity Act
20. To employ for some purpose; to _____ credit
21. A person or business to whom money is owed.
23. Point in time when payment must be made. Due _____
26. Person who agrees to pay off loan if original signer does not.
29. Interest rate which must be disclosed under Truth-in-Lending law.
32. Clause in loan contract that makes all payments due immediately.
35. To get money by labor or service
37. Payable immediately; the _____ date
38. To take legal action against someone
39. An agreement between two or more parties that creates, modifies or ends a legal relationship.
40. Type of loan paid off in equal monthly payments

DOWN:

2. Court action which gives lender right to have employees send wages to the lender.
3. A claim against property for payment of a debt
5. A legal proceeding to have assets divided among creditors and free the borrower from debt.
6. Agreement between borrower and lender that payments can be made after original due date.
7. Lender that offers a variety of financial services.
9. A loan balance sometimes still owed after a repossession is sold.
11. To write your name on a document
14. To be indebted to
15. Something of value which lender can take if payments are not made.
16. Charging illegally high rates of interest
17. The fee you pay for using someone else's money.
22. Something owed to another person (usually money).
24. Borrowed money
25. Earnings of an employed person
27. To be behind on payments is to be in _____.
28. Unusually large final payment
30. To buy goods on credit
31. To obtain something with a promise to return it
33. A credit instrument in which a borrower promises to repay a certain sum of money.
34. A medium of exchange used to pay bills.
36. To give money to satisfy a debt

MICHIGAN CONSUMER EDUCATION CENTER
217A University Library
Eastern Michigan University
Ypsilanti, MI 48197

Consuming illusions: The joyful sorrows of plastic money

Ready spending power through credit cards is a temptation to rival the Sirens of Ulysses

REPRINTED WITH THE PERMISSION OF THE DETROIT FREE PRESS

by TRUDY LIEBERMAN

Carefree and debt-free, Gene and Karen went to Niagara Falls for a weekend vacation seven years ago. They tried to cash a check. It wasn't easy.

So they got their first credit card — Shell gasoline — for identification and check cashing purposes. Then they wanted a Standard card. There were more Standard stations than Shell stations. When Standard gas became too expensive, they got a Union Oil card and switched brands.

Gasoline credit cards were easy and convenient. Gene and Karen didn't have to carry cash. From gasoline credit cards, they graduated to Sears, Wards and BankAmericard. Everything from an air conditioner and freezer to snow shovels and baby shower gifts went on the cards.

The BankAmericard balance reached $300 or $400. They got Master Charge.

"We didn't want to put anything more on BankAmericard and it gave us another place to buy money from," Karen says. With Master Charge and the bank's new electronic teller machine they could get instant cash and go out to dinner.

"I'd take a quick trip over to Northland and punch out a quick $25. It was all added to Master Charge," explains Gene, a very tall man of 27.

Within three years they accumulated $6,300 worth of debt to 12 creditors. They are now struggling to get out by going through a debt management program at Credit Counseling Centers, the non-profit debt adjustment agency that has been seeing families like Gene and Karen for eight years.

Gene and Karen are typical of a new generation weaned on credit and accustomed to instant gratification.

"A lot of people operate on the level that somehow something will happen to take care of them (debts). It's a child-like conception of the world. I suppose it's a sign of immaturity. Maybe these people were indulged in as children," says Wayne State University psychology professor John Teahan. People from these backgrounds who also have strong status needs are especially ripe for getting in credit difficulties, Teahan believes.

Gene and Karen feel more at home with credit cards than with green bills. And unlike their parents and grandparents, they see nothing wrong with piling up large debts.

Here is how they did it and the attitude that will encourage it to continue.

"We charged a stove, a refrigerator, freezer and then we decided to take a trip," Gene recalls.

"Oh yes," Karen says. "We charged most of that. We had $160 to go on Avco (finance company) and we turned around and put $600 on it."

"$600 was cash for the trip. I had managed to save another $600 by not paying as many bills as I should have," Gene says.

"They (the finance company) called and said we had a $1,500 credit limit and we only owed $160. We had been thinking about a trip to Nova Scotia. They called and we said, why not. It was a little too convenient."

"Wasn't part of the trip on BankAmericard, too?" Karen asks. They both paused a long time before answering. "Maybe we charged two nights lodging. I really don't remember."

What else on BankAmericard?

DETROIT FREE PRESS

June 6, 1976

"I'm sure there were probably clothes and one of those Yankee stores closed out and we bought lawn chairs, tackle boxes," Gene says.

"You always feel like you can handle it (the bills)."

"Sometimes we did feel desperate," Karen says. "And then I'd forget about the bills... until we got the statements."

"It's called 'ignore'," Gene adds. "It didn't bother us. We figured we'd pay them a double payment this month. We never did. A friend would call and say come out for dinner and we'd go."

"We always thought we'd pay them off with our income tax checks but the checks always went for something else," said Karen.

"Sides of beef and entertainment — that pretty much took care of the income tax checks," says Gene. "I like good beef," he adds. "You get tired of eating hamburger that's three-fourths fat and suet."

Even in debt Gene and Karen haven't had much trouble getting new credit. It puzzles them.

"An interesting thing happened to us a month ago," Gene says, smashing his cigaret into an ashtray.

"Wards called and asked if we wanted to renew the maintenance policy on the stove. We said yes and they said they'll take care of it."

"We wanted to pay cash and thought they'd send a bill. The next thing we knew it was on our charge account. Then the credit department called and said 'you're still using your card even though the account is closed.' They added the $33 (the cost of the policy) to our account arbitrarily."

Gene earns about $19,000 a year as a TV repairman with a side job at a funeral home. They live in a $20,000 house in the blue collar suburb of Hazel Park. Now that they are trying to bring their bills under control, they have cut the $6,300 debt in half.

But just as soon as they pay off their debts, they can look forward to more debt.

"I'd love to have a camper," Karen says. She is a large woman with long brownish hair. Their daughter, about three, squirms on her lap. Gene agrees. "A camper, a boat and a trailer would be the big three. An airplane comes next." He laughs. "Not really an airplane."

"It's the American dream." His voice gets louder and more definite. His face gets red. "I've always tried to stay upper middle class." He accents the word "upper." "I wouldn't say middle class."

Not long ago he wanted to buy a '74 Lincoln Continental. The credit counselor talked him out of it.

The experiences of Gene and Karen (not their real names) exemplify one of the paradoxes in a credit economy. If people didn't buy on credit the American economy would collapse. In February, Americans had some $160 billion outstanding in installment credit. That's almost half of what the federal government plans to spend in the 1976 fiscal year. The amount of Master Charge debt Americans had outstanding at the end of 1975 was about $5 billion. The BankAmericard total was nearly $4.4 billion.

But when people do buy on credit, their own economy may collapse. Everyday families like Gene and Karen are encouraged, goaded, exhorted to buy on credit. Even when they're at the brink of their credit limits, credit cards and charge plates still wave in front of them.

Credit card limits inch upward from $500 to $750. "If someone's crowding the line, keeping their balance right around $500, we write and ask if they'd like a little more credit," says Robert Crocker, consumer loan vice president at City National Bank.

One of the flyers the bank sends says in part "are you getting all the credit you deserve?"

"We've had clients in a debt management program who've made a few payments to creditors and some creditors turn right around and solicit them," says Albert Horner, president of Credit Counseling Centers.

That's like sending a half-cured alcoholic a case of whiskey.

But the pressures on creditors to compete and sell their credit is intense.

"If you don't offer overdraft banking, master check and Master Charge and the other banks are doing it, you're going to lose business," Crocker adds.

A small loan company branch manager puts it this way: "If we don't increase our outstandings (the amount of money let out), we're not doing our job. If a person has established credit with us we want to keep him on the books.

"A lot of people aren't aware they don't have to pay off a loan to get more money. Renewing old loans is the bread and butter of our business."

At the same time creditors are under pressure to keep their delinquencies low. It's a schizophrenic business.

□

"How do you think you got into this mess," the credit counselor asked. "Why are you here?"

It didn't take long for the young man to answer.

"Impulse buying," his voice was low — you could hardly hear him.

"Anything particular," the counselor continued.

The man, about 24, dressed in a black jumpsuit with white stitching and a big silver zipper down the front says: "Miscellaneous things. It's available and you just snatch it up."

He was the typical young client in financial trouble.

"Was credit fairly easy to get?"

The man fingered his black goatee — it was thin like he was. "When I got more time on the job, I started paying a few bills and I started to get more credit."

His problem was simple. He made enough money — $1,204 a month as an emergency medical service technician for the city of Detroit. But the money slipped away before he could pay any bills.

He was $1,200 in debt.

Household Finance was sending him dun letters for a stereo bill. A collection agency was after him for a $210 bill at Hudson's. And his paycheck was being garnisheed at least once a month for a bill for some carpeting he was buying for his aunt.

"The guy from Household Finance is really pressuring me," he finally admits. He explained his dilemma this way.

"Sometimes I may need 20 bucks and Hudson's needs 20 bucks. Hudson's gets left out and I pay me 20 bucks." He asks if he can smoke.

"When I wasn't workin', I wasn't in as much debt. I smoked a lot less," he lit up a Kool Mild.

The credit counselor's adding machine goes click, click, click. After figuring the man's monthly expenses — generously too — and his monthly bill payments, the counselor says he still has $70 left over.

"I don't see it," the man shook his head.

"You've blown your money pure and simple," the counselor tells him, tapping his pencil on the list of expenses he had written down. "You don't have a handle on where the money is going. You haven't organized yourself." The counselor goes on lecturing a bit like a school teacher scolding a naughty pupil.

"It's a common problem. You haven't really grabbed the bull by the horns here and said 'I have these obligations and I've got to pay them.'"

The young man answers: "I'm recently to the point where I'm down on credit. I'm through with credit. I need some new wheels. That's why I'm trying to get out of debt. I don't feel I'm the one who can walk around with a pocket full of credit cards." He shakes his head again.

"I see somethin' I like and have a charge card in my pocket, I buy it. It's as simple as that."

The man was never taught money management. He took an economics course at Northwestern High once. It didn't teach him how to charge at Hudson's or to pay Hudson's back for that matter.

When people paid cash for things — mostly in the days before World War II — money management wasn't much of a trick. If you didn't have the money, you couldn't buy. Cash automatically disciplined spending and it was hard to overspend. But today you can buy, spend and worry about paying later — much later if you want.

Credit makes it possible to spend more than you earn. It eliminates the discipline of cash and requires a self-imposed discipline to figure out how to pay back what you borrowed. That's where many fail.

"If mom and dad don't teach it (money management), they aren't going to get it," says credit counselor Gene Slough. "We have desperately tried to get money management classes established in schools. Not having it is a mistake in our whole system.. It's tragic."

That's another paradox in the credit economy. Most school administrators agree lack of consumer education — and particularly credit education — is critical.

But of the state's 630 public high schools, only 45 require all students to take a course in consumer education. Some school administrators feel curricula already are crowded and making a student take another required course takes away his personal freedom, says Rosella Bannister, director of the Michigan Consumer Education Center at Eastern Michigan University.

"Another argument is that consumer education is simple enough that the smart kids will pick it up from normal marketplace experiences and don't need a course. If there is a need for a course, they think it's for girls and slow learners," Mrs. Bannister says.

□

The young man dressed in a black and white striped polyester suit, vest and gray shirt sits erect in the chair. Occasionally he plays with the sunglasses in his hands, but for the most part he exudes an air of coolness. The man, probably in his early 20s, is an assembler at Cadillac but he dresses more like a Southfield lawyer.

He makes a good salary — $322 a week with overtime. He owes his creditors $5,438.90. The credit counselor doesn't think he wants to pay his bills. He has brought none of them to the counseling session, although he was asked to do so.

"Do you have a car payment?" the counselor asks.

"That's taken out of my check — $125."

"I think that's a little low, friend," the counselor says. She has done some checking up on the man, who has been at Credit Counseling Centers before.

"Your balance is $4,148. The payment is $181.93. Your insurance is with what company?"

"Farmers," he answers.

The counselor later says that the young man doesn't have any insurance at all. In fact, the insurance has been cancelled through his credit union because there has been no money in his account to pay it.

"What was the purpose of the loan at Plymouth Finance?" she continues.

"I bought myself a truck because I didn't have a car. But I sold the truck."

"You put the balance from the sale on the loan, did you?"

"I tried but they wouldn't take it." Later the counselor checks with the finance company. The young man had never tried to pay the loan off.

"What are your payments to Cole and Irwin?"

"That was one of hers," the young man responds, referring to his ex-wife.

"What was purchased?"

"I don't know what was bought," he says.

"Wasn't your signature on the sales check?"

"Y-e-s," the man answers slowly and reluctantly.

"Then what was bought?" the counselor asks.

"A stereo. But it never came. It went somewhere else."

"When did you last pay Meyer's (Jewelry)?"

"Two weeks ago."

The counselor calls Meyers. The young man hasn't made a payment since December.

"He's not telling me all his bills or he's blowing his money on his back. He's absolutely ruining himself," the counselor says. "He's traveling on his good looks and feels no compunction to pay his bills. If he branches out and tries to get credit, other creditors will call Credit Counseling Centers."

And there lies yet another paradox of the credit economy. Easy and available credit has made people feel less duty-bound to pay their bills.

"You used to hear a man say his family would starve but he'd pay his bills. You don't hear that anymore," says the collection manager for one very large area credit union. "Their attitude seems to be that there are more important matters than paying obligations."

Horner of Credit Counseling Centers agrees. "When credit cards caught on, credit became so available to everyone, they didn't have to respect it. They say, 'What the hell. I can get it everyplace. I got it coming.'"

Then too, these days fewer people are embarrassed to go through bankruptcy. It no longer carries the stigma it once had. In March, 50 percent of City National Bank's Master Charge losses were due to bankruptcies. Robert Crocker, the bank's consumer loan vice president, says that is the highest Master Charge loss figure due to bankruptcies he has seen.

Even bankrupts can get credit. Some companies aim their advertising pitches to the down and outers who have just been through the bankruptcy courts.

Cadillac workers are not unique. Thousands of people just like them are living from day to day on credit.

In the next few years they may have even more credit problems as the coming electronic banking system makes both money and credit available at the tap of a button.

With electronic tellers stationed conveniently in shopping malls, people will be able to press buttons and get $50 or perhaps $100 in quick cash and buy clothes, go to a movie or have an expensive meal. And it can all be added to their credit cards or line of credit at the bank.

Schools that now spend a lot of time teaching kids how to make money could as well teach kids how to spend it, how to buy on credit and how to cope with the ever-increasing electronic money system.

But even if the schools teach kids how to use credit, a fundamental problem created in part by the credit system itself, still remains. How to change the growing devil-may-care attitude toward paying bills. ■

ANSWER KEY
TO
CROSSWORD PUZZLE, PRE AND POST TESTS

ACROSS:

1. Fee
3. Lend
4. Pawnbroker
8. APR
10. Assignment
12. Finance
13. Repossession
18. Credit
19. ECOA
20. Use
21. Creditor
23. Date
26. Cosigner
29. Annual Percentage Rate
32. Acceleration
35. Earn
37. Due
38. Sue
39. Contract
40. Installment

DOWN:

2. Garnishment
3. Lien
5. Bankruptcy
6. Extension
7. Bank
9. Deficiency
11. Sign
14. Owe
15. Security
16. Usury
17. Interest
22. Debt
24. Loan
25. Wage
27. Default
28. Balloon
30. Charge
31. Borrow
33. Note
34. Money
36. Pay

PRE-TEST

1. False
2. C
3. A
4. False
5. E
6. True
7. False
8. False
9. True
10. True
11. False
12. False
13. False
14. D

POST-TEST

1. False
2. False
3. False
4. True
5. True
6. d
7. e
8. e
9. c
10. e
11. b
12. e
13. c
14. b
15. c
16. k
17. e
18. g
19. a
20. i
21. g
22. e
23. c
24. k
25. e and n
26. h
27. s
28. f
29. d
30. j
31. r
32. o
33. l
34. b

SHOPPING FOR CREDIT

SOURCES	MAXIMUM LEGAL RATE IN MICHIGAN	COMMENTS
BANKS	12.5% - 16.2%	USUALLY REQUIRES HIGHEST CREDIT RATING
CREDIT UNIONS	12% - FEDERALLY CHARTERED 15% - STATE CHARTERED	MUST BE ELIGIBLE TO JOIN
SAVINGS AND LOANS	14.5%	PRIMARILY HOME MORTGAGES AND PASSBOOK LOANS
FINANCE COMPANIES	30% - FIRST $400 15% - $1100	MAXIMUM LOAN - $1500
PAWNSHOPS	36%	REQUIRES COLLATERAL OF VALUE NO CREDIT RATING REQUIRED
STORES 1. CHARGE ACCOUNTS 2. INSTALLMENT	 20.4% (18% IS USUAL) 21.57% ON FIRST $500 AND 18.17% OVER $500	
BANK CREDIT CARDS	18%	FREE CREDIT IF PAID BY DUE DATE
INSURANCE POLICIES	5 - 7%	NO SET REPAYMENT BUT REDUCES INSURANCE COVERAGE.
LOAN SHARKS	EXORBITANT INTEREST	ILLEGAL

SHOP FOR CREDIT

Finance Charge

CASH PRICE	$3,500.00
CASH DOWN PAYMENT	500.00
AMOUNT FINANCED	3,000.00
FINANCE CHARGE	587.10
TOTAL OF PAYMENTS	3,587.10

APR

ANNUAL PERCENTAGE RATE	12%

HOLDER-IN-DUE COURSE

Credit consumers have an additional right which has not been previously discussed. It is related to the legal doctrine of holder-in-due course.

* * * * *

Example: You buy a washing machine on credit from an appliance store. The store sells the credit contract to a sales finance company who is not the legal "holder-in-due course" of the contract. But the washing machine does not work. You complain to the appliance store and when you receive no action, you threaten to stop making payments. The appliance store says "I don't care -- you owe the money to the finance company." The finance company says "Too bad, you owe us the money, you get the appliance store to fix the washing machine."

* * * * *

Under the old law, the consumer would have had to pay for the washing machine, even though it never worked properly. Because of the abuses in this area, several laws have been passed for the consumer's protection. A federal trade regulation rule, for which the interpretations are still vague, says that if the consumer has a complaint, and if the consumer stops making payments, and if the holder-in-due course sues the consumer for payment, the consumer will have a defense for not having made the payments. The idea behind the rule is that if enough consumers stop making payments, the holder-in-due course will contact the merchant, and ask the merchant to start taking care of consumer complaints. If the merchant doesn't, the holder-in-due course will eventually find it too unprofitable to do business with that merchant, and therefore the sources of financing for unethical merchants will disappear.

Before the FTC got involved, the state of Michigan passed a law changing the old holder-in-due course doctrine so that consumers wouldn't have to pay for products or services that didn't work or weren't delivered.

The Michigan law can be enforced by county prosecutors and by the Attorney General, whereas the FTC rule must be enforced by the FTC, so the Michigan law is more useful for Michigan consumers. But there's a problem with the Michigan law; it doesn't cover retail charge accounts, bank cards, or automobiles. In 1977, the Michigan legislature is considering an amendment which would include automobiles under the act.

The problem of holder-in-due course regarding credit cards has been taken care of by another law: the Fair Credit Billing Act. Under this act, "if you have a problem with property or services purchased with a credit card, you may have the right not to pay the remaining amount due on them, if you first try in good faith to return them or give the merchant a chance to correct the problem. There are two limitations on this right: a) You must have bought them in your home state and if not within your home state within 100 miles of your current mailing address; and b) The purchase price must have been more than $50." Except for banks this act is enforced again by the FTC which cannot usually mediate individual complaints, but looks for patterns of complaints which it can investigate.

Some consumers think that if they have a problem with any product that they have bought on credit, they can automatically stop payment. However, not all lenders are holders-in-due course. If the consumer goes directly to the bank, credit union or finance company to get a loan to buy something, the bank, credit union or finance company are not holders-in-due course because they did not buy the contract from the merchant. The consumer is legally obligated to pay the loan regardless of defective or non-existant merchandise.

In summary, if you have a problem with a product or service, contact the merchant first. If you cannot obtain satisfaction, and your loan was sold to a holder-in-due course, contact that holder. Perhaps the holder will contact the merchant to have your complaint remedied. If the holder-in-due course will

not take any action, contact the nearest county prosecutor, consumer protection agency, or your attorney, to consider what steps to take next. Also, some interpretations of the law may make some lenders holders-in-due course even though it is not apparent that they are such holders.